

CITIZEN



INTEGRATED REPORT
CITIZEN REPORT
2022

Our Corporate Philosophy “Loved by citizens, working for citizens.”

CITIZEN's corporate philosophy, “Loved by citizens, working for citizens” is to deeply contribute to the lives of people around the world through the manufacturing of products that are loved and trusted by citizens.

Inputs (as of March 2022)

Financial Capital

Total assets 394.9 billion yen

Net assets 238.6 billion yen

Intellectual Capital

Number of patents that the Group holds more than 5,000

Number of trademarks that the Group holds more than 5,000

Manufactured Capital

Amount of capital investment 10.7 billion yen

Production system centered on Japan, China and Thailand

Social Capital

Global supply chain network

Human Capital

Number of employees 16,161

Natural Capital

Total energy consumption 2,862,000 GJ

Water intake 1,890,000 m³

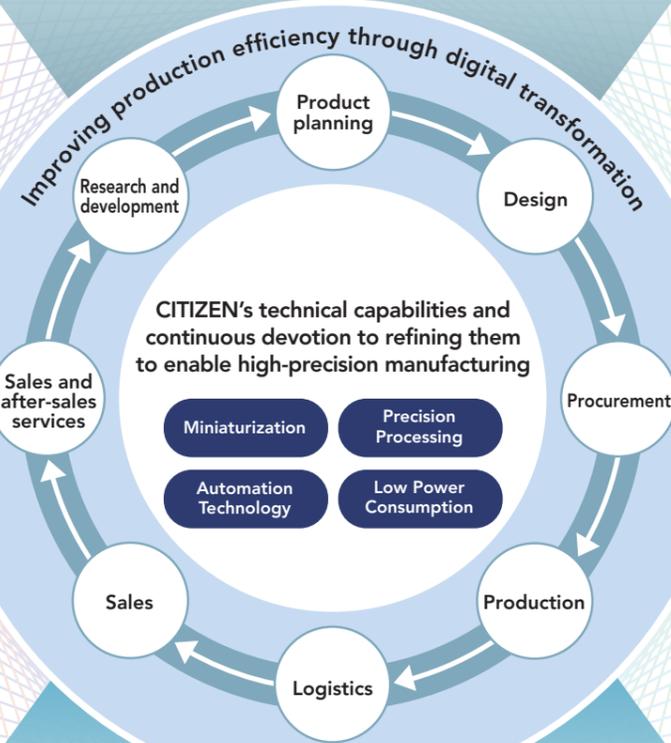
Recycling rate 73%

Changes in the external environment

- Changes in people's values
- Digitalization
- Changes in mobility
- Aging population

Sustainable Management

▶ See page 27



Materiality

- Contributing to high-quality life
 - Providing solutions in industry
 - Responding to climate change and contributing to a recycling-oriented society
 - Increasing job satisfaction and cultivating human resources
 - Fulfilling social responsibility
- Material issues to address to achieve sustainable growth in corporate value

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Business foundation

Corporate Governance

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Risk management

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Sustainability promotion system

▶ See page 27

Outputs

Provide sustainable products

Products and services

Watches, machine tools, devices and components, electronic and other products



CITIZEN Group long-term vision

Crafting a new tomorrow

Outcomes

Business activities that reduce environmental impact



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Editorial Policy

The CITIZEN Report summarizes and compiles details of the CITIZEN Group's corporate stance and business direction, aiming to convey them to stakeholders in an easily understandable manner while at the same time giving care and consideration to the environment. For more information, please visit our official website.

<https://www.citizen.co.jp/global>



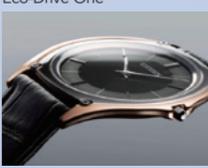
Forward-Looking Statements

This report contains forward-looking statements regarding the CITIZEN Group's future performance. These statements are based on information currently available. Statements regarding future forecasts involve risks and uncertainties such as exchange rate fluctuations and changes in demand for products. Readers should understand that actual Group performance might differ from the outlook provided in this report.

History of the CITIZEN Group

Watches

CITIZEN has always focused on continuous technology development including miniaturization, automation, precision machining and power-saving technologies.

1918  Establishment of Shokosha Watch Research Institute, the predecessor of Citizen Watch Co., Ltd.	1956 The first shock-resistant watch movement made in Japan [Parashock]  The technology was demonstrated by dropping Parashock watches from a helicopter.	1959 The first fully waterproof watch made in Japan [Parawater]  Waterproofing was achieved by using special seals. The image shows the container used to carry the watch across the Pacific during testing.	1970 The world's first titanium wristwatch  X-8 Cosmotron Chronometer The light, strong, corrosion-resistant titanium was machined using CITIZEN's proprietary technologies.	1976 The world's first solar-powered analog watch  Crystron Solar Cell CITIZEN developed the world's first watch powered by a solar cell, eliminating the need for battery changes.	1993 The world's first multi-band radio-controlled watch  Cal. 7400 CITIZEN launched the world's first multi-band radio-controlled watch as part of its efforts to create even more accurate timepieces.	2011 The world's first watch capable of receiving satellite signals  Eco-Drive Satellite Wave Equipped with a "satellite system," the Eco-Drive Satellite Wave receives GPS signals from satellites to automatically adjust the date and time.	2016 The world's thinnest light-powered watch with a movement just 1 mm thick  Eco-Drive One CITIZEN designed and developed all components from scratch to create the world's thinnest movement.	2021 Mechanical models featuring a completely new mechanical movement manufactured in-house  Caliber 0200 These models are equipped with the Caliber 0200 movement, a new high-accuracy mechanical movement offering both accurate timekeeping and aesthetic appeal.
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CITIZEN's in-house production of watch manufacturing equipment developed into a fully-fledged machine tool manufacturing business.

Machine Tools

Innovative manufacturing that solves issues in the manufacturing workplace

1936 Internalized manufacturing of precision machinery for watch production B-0 automatic lathe  CITIZEN developed in-house precision machinery to replace expensive Swiss-made machines. Commenced external sales in 1961.	1986 Sliding headstock type NC automatic lathe L16  Became a bestseller with improved versatility, operability and cost performance, which had been challenges in the past.	2013 Multi-station machining cell MC20  The multi-station configuration with modular design optimally allocates machining processes with 3-4 processing stations, shortening takt times. Achieved simultaneous mixed-flow production of various models.	2018 Development of LFV (low frequency vibration) cutting technology  CITIZEN developed LFV (low frequency vibration) cutting technology, which reduces problems in production processes and contributes to improved productivity.	2018 Development of friction bonding technology  CITIZEN developed a technology called friction bonding that drastically reduces the amount of leftover materials after machine processing. This has reduced material costs and contributed to more environmentally friendly production.
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The desire to produce Japanese-made watches

Founded in 1918

CITIZEN was founded based on the strong desire of founder Kamekichi Yamazaki to produce Japanese-made watches at a time when pocket watches manufactured in countries such as Switzerland and the United States were the mainstream. We manufactured machine tools for parts to improve the precision of our own watches, opened a watch school to train excellent skilled engineers, and engaged in manufacturing with a thorough focus on technology.



Kamekichi Yamazaki

The name of our first pocket watch is the origin of our company name

The pocket watch, which was completed using a proprietary design, became the first CITIZEN Watch. It was named by Count Shinpei Goto, the mayor of Tokyo at the time, who was also a close friend of Kamekichi Yamazaki. It was named "CITIZEN" so that it would be loved widely by citizens for a long time. The name "CITIZEN" was incorporated into the company name, and Citizen Watch Co., Ltd., was established in 1930. Since then, the Group has continued to uphold its corporate philosophy of being "loved by citizens, working for citizens."



Application of precision processing technologies developed in the assembly of watch parts

Devices and Components 1983 Began mass production of surface-mounted chip LEDs (a world first) CITIZEN caters to market needs with proprietary technologies and is working to further minimize and increase the precision of crystal devices, switches and motors, etc.	1990 Began manufacturing of automotive parts
Electronics and Other Products 1964 Expansion into the office equipment field Starting from the use of precision technologies for electric adding machines, CITIZEN went on to produce a diverse range of products such as typewriters, printers and healthcare products.	Manufacture of electronic devices close to people's lifestyles

Applying high-precision technology to solve challenges in various fields

The CITIZEN Group Today

More than a century since it was founded in 1918 with the desire to produce Japanese-made watches, the CITIZEN Group has evolved into a corporate entity engaged in a wide range of businesses. Here we outline our four businesses, through which we contribute widely to the lives of people around the world.

Watches

We are driving the future of watches with the Eco-Drive technology for converting light into power that we were the first in the world to develop, a leading-edge GPS satellite radio-controlled watch, and other products and technologies. We are doing this under the philosophy, "Better Starts Now," which means that no matter who you are and what you do, it is always possible to make something better and now is the time to start doing it. We are one of the world's few *manufacture d'horlogerie*, capable of the integrated in-house manufacturing of everything from individual parts to completed products.



Main Operating Companies
Citizen Watch Co., Ltd.
Citizen Watch Manufacturing Co., Ltd.
Citizen Retail Planning Co., Ltd.
Citizen T.I.C. Co., Ltd.

**Top class share in the U.S. middle-range market
A global leader in movement sales**

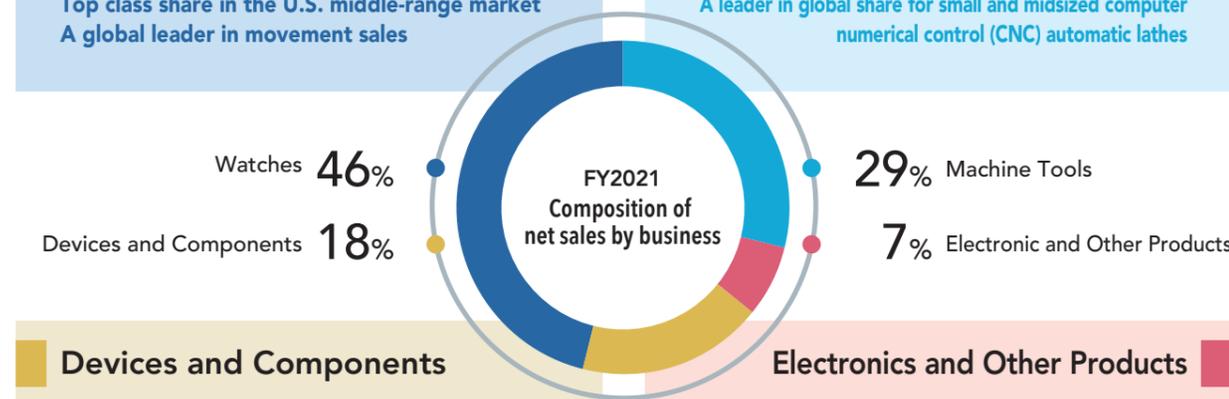
Machine Tools

CITIZEN began production of machine tools in 1936, utilizing the technologies and know-how developed through the manufacture of watch parts, which demand small size and high precision. Machine tools for creating components essential for a wide range of fields, including the automotive, medical and IT industries, contribute to the development of manufacturing industries all over the world.



Main Operating Companies
Citizen Machinery Co., Ltd.

A leader in global share for small and mid-sized computer numerical control (CNC) automatic lathes



Devices and Components

CITIZEN supplies products for various electronic devices that support society, by applying the core technologies of miniaturization, precision machining and low power consumption developed through our watchmaking operations. This makes it possible to reduce the power consumption and prolong the service life of products, making people's lives more convenient and comfortable, while also contributing to reducing the burden placed on the global environment.



Main Operating Companies
Citizen Finedevice Co., Ltd.
Citizen Electronics Co., Ltd.
Citizen Micro Co., Ltd.
Citizen Chiba Precision Co., Ltd.
Fujimi Corporation
Citizen Electronics Timel Co., Ltd.

Applying our proprietary core technologies to high-value-added products

Electronics and Other Products

CITIZEN's POS/barcode printers and high-definition digital photo printers—made by applying the miniaturization, precision machining and low power consumption technologies developed through our watchmaking operations—play active roles in various scenes in society. Our electronic blood pressure monitors, electronic thermometers and pedometers—which have further developed our core technologies—also contribute to the creation of healthy lifestyles for many people.

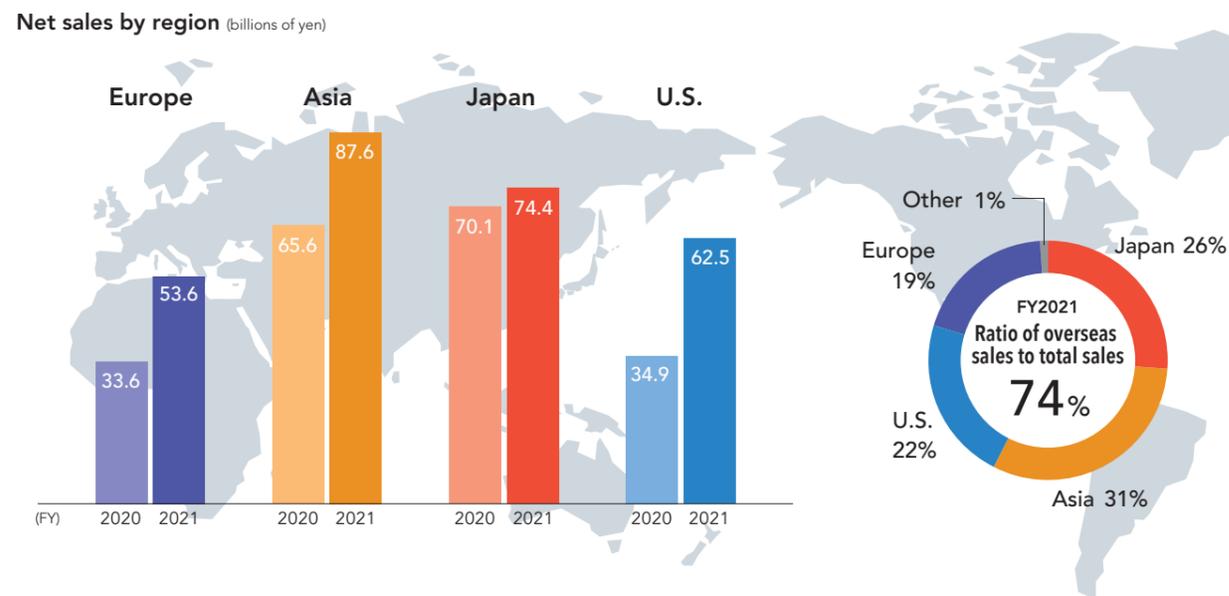


Main Operating Companies
Citizen Systems Japan Co., Ltd.
Tokyo Bijutsu Co., Ltd.

Application of small precision technology

Overseas Expansion of the CITIZEN Group

CITIZEN Watch—which began with our founder's desire to produce Japanese-made watches—is actively expanding overseas by utilizing Citizen's core technological capabilities such as miniaturization, automation technologies, precision machining and low power consumption. With 64 overseas subsidiaries and a 74% overseas sales ratio, we are contributing to the lives of people around the world through reliable technologies and products and services that meet their needs.



Major Social Recognition

The CITIZEN Group has been engaged in various business activities that put into practice its corporate philosophy of being "loved by citizens, working for citizens." Based on our belief that we must never violate social norms, be dishonest or cause our customers or business partners to feel distrust, we are working to deepen the level of our sustainable management (see page 27) to solve social issues and contribute to the development of a sustainable society. In recognition of these ideas and initiatives by external organizations, CITIZEN has been selected for inclusion in various ESG-related stock price indexes.

2022 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX

2022 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

MSCI Japan ESG Select Leaders Index and MSCI Japan Empowering Women Select Index (WIN)

We have been included in the MSCI Japan ESG Select Leaders Index since December 2019 and the MSCI Japan Empowering Women Index (WIN) since June 2017.

FTSE Blossom Japan Index

Since December 2019, we have been included in the FTSE Blossom Japan Index.

S&P/JPX Carbon Efficient Index

CITIZEN has been selected as a constituent of the S&P/JPX Carbon Efficient Index.

CDP Supplier Engagement Rating

In 2021, we were listed on CDP's Supplier Engagement Leaderboard, which recognizes only the highest rated companies.

SOMPO Sustainability Index

Since 2017, we have been included in the SOMPO Sustainability Index (previously the SNAM Sustainability Index).

Message from the President & CEO



Creating new value for crafting a new tomorrow

We will work under the new medium-term management plan to achieve our Corporate Philosophy.

Citizen Watch Co., Ltd.
President & CEO

Toshihiko Sato

Reaffirming unchangeable value amid major changes in the environment

Since the beginning of 2022, the world has been growing increasingly uncertain, with rising international tensions and an increasingly complex social environment. Looking back on the Medium-Term Management Plan 2021 for the period until FY2021, we could not achieve the plan's goals due to the unprecedented challenges created by the COVID-19 pandemic. This underscores the gravity of the pandemic's impact. Above all, Watches, which is basically a BtoC business, was greatly affected by the restrictions on going out because in many cases customers check out our products in person at stores when buying them. Moreover, sales in Japan declined significantly, by around 60% compared with FY2018, the pre-COVID-19 level, given a decline in the demand from inbound tourists. On the other hand, the Machine Tools business has continued to enjoy strong orders, mainly for CITIZEN-proprietary LFV (low frequency vibration) cutting technology. This gives us the sense that manufacturing has not stopped even amid the COVID-19 pandemic. How should the CITIZEN Group continue to create value into the future while the business environment is going through such major changes and while we see technological innovations and the rise of new industries? Although it is difficult to make long-term predictions, we have based our considerations on a comparison of the large number of social

and environmental issues existing in the world with the strengths and value of our businesses. One thing that we found in the COVID-19 pandemic is the fact that watches are firmly rooted in the lives of citizens, and there are certainly customers who recognized the value of watches and purchased CITIZEN products. In the U.S. market, which at one point contracted significantly due to the lockdowns, the segment of high-end watches, the prices of which exceed 1,000 U.S. dollars, is also recovering thanks in part to the strategic marketing and branding measures that we have taken. This indicates one major direction that the CITIZEN Group should take. Furthermore, I learned a lesson through the experience of struggling with the launch of, and withdrawal from, many businesses during the 1980s and 1990s. The lesson is that a robust business model for what value to create in which market is essential for creating and developing a core business. Thinking again about the CITIZEN Group's strengths and the value created from them based on these findings and lessons, you will reach the Corporate Philosophy, the linchpin of our management that has remained unwavering since our founding. Since its founding in 1918, the CITIZEN Group has continued growing by including "CITIZEN" in its name and widely contributing to the lives of people around the world through the manufacturing of products that are loved and trusted by citizens. As for our business domains, while Watches as a BtoC business was where we started, we have successfully

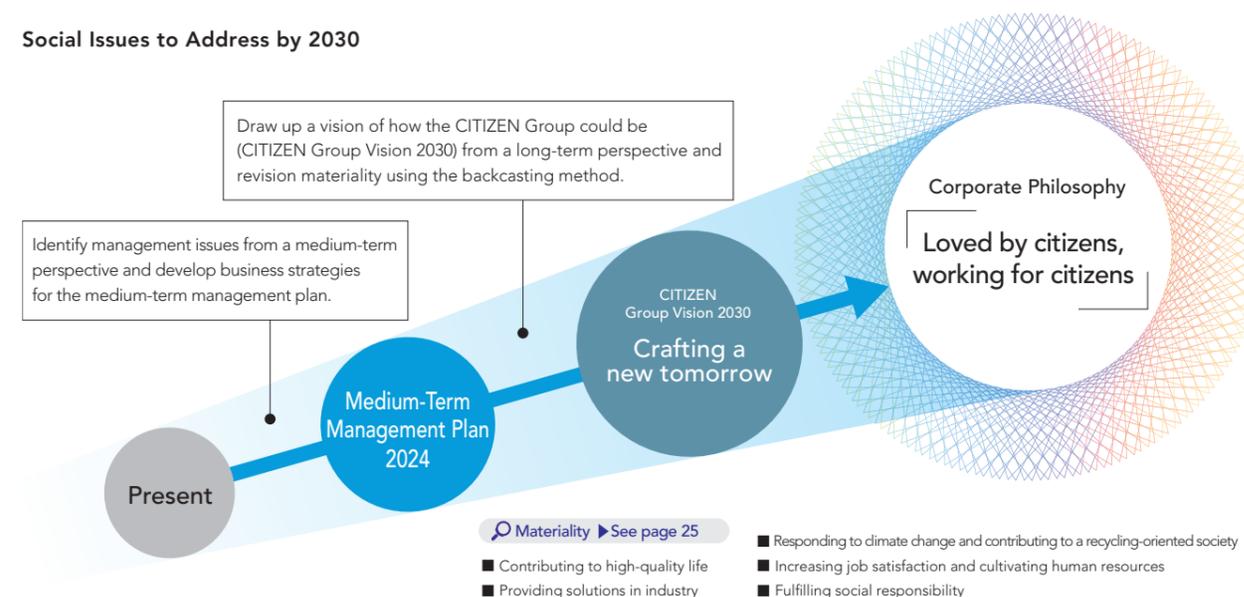
developed BtoB businesses derived from precision processing and assembly technologies that we cultivated through Watches, and further, from automation, surface processing and surface hardening technologies. However, considering that C (customers) exist ahead of BtoB businesses, all businesses eventually contribute to citizens. This is the philosophy that we embody. With this unchangeable philosophy as our linchpin, we have determined what we should be like 10 years from now, which is a long-term vision, and the areas of focus that we will address on a priority basis (materiality), keeping in mind the next 100 years of the CITIZEN Group. We have reflected these priorities in the Medium-Term Management Plan 2024, which began in FY2022.

Crafting a new tomorrow, our long-term vision

At the CITIZEN Group, we have declared *Crafting a new tomorrow* as our long-term vision for 2030. While responding to social changes toward 2030, such as the progress toward a sustainable and digital society, the CITIZEN Group is increasingly moving in the direction of not only enriching the lives of people around the world but also creating spiritual wealth and passing down that wealth to future generations. Positioning this as the CITIZEN Group's mission, we will strive to deliver reliability, security and emotion to the world through our business operations. A measure we will take to embody this long-term vision is to break away from the product-out approach (product-oriented approach), with which we *create something because we have technologies*, and develop business strategies with the outside-in approach, which is focused on what value we intend to bring to society through the businesses we create. For example, in the Watches business, we have hitherto

worked to expand sales by offering area-specific models, which are designed for the characteristics of each region, in diverse price ranges while also rolling out a global brand. The expansion of area-specific models, or the launch of new products tailored to regional characteristics, had a strong impact in each region. However, it was also a factor in the fragmentation of the brand image in the global market. Moving forward, we will establish a global brand image based on the value created by CITIZEN in the lives of citizens, thus building a brand presence and improving investment efficiency. One example of the value is the accuracy of ± 1 second per year that only CITIZEN watches achieve. One year is 31,536,000 seconds, and even watches that are generally regarded as high-performance models gain or lose a few seconds each day. With this in mind, we would like to deliver the value of *making every second count*, which we have been pursuing with our technological capabilities at CITIZEN, as our common message in Japan and other Asian countries, Europe and the United States, and the global market. While branding takes time, we will build the brand during the 10 years of our long-term vision. We came up with this long-term vision, not by developing a plan on a business-by-business basis but rather through a process in which we involved mid-career members from each business and discussed the long-term growth of the Group and what we want to be like, from the perspective of the overall Group. In this process, communications within the Group gained momentum, and many discussions were held from the Group's perspective, transcending boundaries between businesses. That was most impressive for me. There appeared to be a somewhat strong centrifugal force in the Group's corporate governance, although our Corporate Philosophy was at the center. Through the above process, however, the centripetal force was also strengthened, leading to a better balance between the two forces in the Group's

Social Issues to Address by 2030



Message from the President & CEO

corporate governance. I think the process was highly meaningful on this point.

Material issues identified to practice sustainable management

To the CITIZEN Group, which works under the Corporate Philosophy of “Loved by citizens, working for citizens,” sustainable management means continuing to create new value for future citizens. To practice this sustainable management, we have identified material issues with a large impact that the CITIZEN Group should address preferentially amid the changes in society, the environment and our planet by backcasting from our long-term vision. We have identified five priority issues: responding to climate change and contributing to a recycling-oriented society, contributing to high-quality life, providing solutions in industry, increasing job satisfaction and cultivating human resources, and fulfilling social responsibility.

Among them, responding to climate change is one of the most important tasks that companies face because the Government of Japan has declared that Japan will achieve carbon neutrality by 2050. To allow future citizens to live on this planet with a sense of security, we have created our road map toward achievement of carbon neutrality by 2050, in which we will drive initiatives to address climate change preferentially from now until 2030. In FY2020, we expressed our support for the TCFD.*1 Moving forward, we will strive to acquire SBT*2 certification for our GHG reduction targets by FY2024. We have been hearing the term *circular economy* recently in relation to a recycling-oriented society. The most important thing for making a circular economy a reality is the design of the system that will be the foundation of the circular

economy. Based on this design, a sustainable world will exist 10 to 20 years from now. In terms of our businesses, customers have already found sustainable value in our mechanical watches, which can be passed down to their grandchildren due to our comprehensive after-sales services. We will continue to deliver the message that CITIZEN is implementing sustainable management. This will also lead to the rebranding of the overall Group.

Concerning human resources, we have set increasing job satisfaction and cultivating human resources as one of our material issues. Diverse experience and communication are essential factors for the development of human resources. We have been developing human resources with a focus on new graduates. To drive businesses that contribute to the acceleration of customers’ DX, however, we also need to proactively recruit human resources with digital expertise who are mid-career and help them develop professionally from a long-term perspective. Although learning through classroom lectures is important, we would also like to develop human resources who will play a leading role in the implementation of reforms based on the diverse experiences that they have accumulated internally and externally. Innovation is the result of training your brain in places where people with different opinions communicate. We will value opportunities to meet many people inside and outside the Company and communicate directly with them.

Medium-Term Management Plan 2024

Under our new Medium-Term Management Plan that started in FY2022, the Watches business and the Machine Tools business will remain as the core businesses that drive the Group’s growth, and we will invest our resources in them strategically to achieve further growth. For the Devices and Components business and Electronic and Other Products business, we will move ahead with selection and concentration while aiming for stable growth. We will also make progress in exploring and initiating new business areas with growth potential.

The watch market is experiencing environmental changes, including the continuing expansion of demand for mechanical watches, the rising awareness of sustainability, changes in consumers’ behavior and values, and expansion of the smartwatch market. Although shipping quantity in the watch market as a whole has been declining gradually, shipment value has been trending upward and demand for mechanical watches is expected to increase stably and continuously. Therefore, we will focus our efforts on enhancing our lineup of mechanical watches in response to trends and communicating our brand concept clearly. Meanwhile, we will draw attention to the use of environmentally conscious materials, such as the features of the eco-friendly Eco-Drive and the use of recycled materials, to take advantage of rising awareness of sustainability. We will also provide consumers with experience value, including product value, and seek to establish

bidirectional communications with them, thus shifting to a domain where our products do not compete with smartwatches.

The Machine Tools business is predicted to expand over the long term. For example, demand related to capital expenditures for automation and reducing labor is expected in a wide range of industries, including automobiles, medical care and semiconductors. In particular, demand is expected to grow significantly in the Asian region, including China and India. The CITIZEN Group has also continued to enjoy strong orders. We will build a business foundation for the achievement of net sales of 100 billion yen by reinforcing our sales and service structures in Asia, where long-term growth is expected, through the increase of the production capacity of our factories in China and Thailand as well as Citizen Machinery’s Karuizawa factory. Moreover, the CITIZEN-proprietary LFV (low frequency vibration) cutting technology, which breaks up chips during the cutting process, has been praised by customers since its introduction in 2013 as an innovation leading to the improvement of the efficiency of a variety of machine tools. We are enjoying the growth of its sales not only in the Japanese, European and U.S. markets but also in Asia. Moving forward, we will strengthen customer marketing by refining our differentiating technologies, like LFV, to contribute to customers’ manufacturing. We will also focus our efforts on proposing new solutions that will lead to the automation of processes and the reduction of labor required in processes before and after the use of machine tools. New businesses are difficult to cultivate in a short span of time like one or two years. We will therefore envision the future and set numerical targets decade by decade, thus striving to create businesses that will contribute to citizens. For example, our healthcare device business, including items such as thermometers and blood pressure monitors, embodies our corporate philosophy of working for citizens and conforms to the SDGs. The domain of medical care and healthcare is one direction for our new businesses. While there has been progress in the digital shift, we are also driving DX. The purpose of our DX is to create customer value. Therefore, we share this awareness internally, mainly through the DX Vision, so that the DX itself will not be regarded as our purpose. We will also create new user value by transforming the products and services that use our technologies, by integrating them with DX. As for the allocation of management resources, we will divert 60 billion yen to 70 billion yen to growth and streamlining investments using cash to be gained through operating cash flow and the optimization of assets owned in the coming three years. We plan to appropriate more than 70% of the cash to Watches and Machine Tools as our core businesses. We will also continue to invest in DX. We determine the amount of

CITIZEN Group Vision 2030

Crafting a new tomorrow

What will the CITIZEN of 2030 look like?

Since our founding in 1918 as one of Japan’s first watchmakers, we have used our technological expertise to expand into other fields, including machine tools, devices, electronics and countless products and services, all built on two key promises: Reliability and a Sense of Security.

Now the time has come for a third promise: Emotion to enrich the soul with products that make life better and build a brighter, richer world for the generations to come. That is our new mission.

In 2030, CITIZEN will be known around the world for reliability, security and emotion. That is how we will contribute to bringing about a better world.

dividends based on a target dividend payout ratio of around 50% and attach importance to stably and continually paying high dividends. We will make flexible decisions on the acquisition of treasury stock to reflect circumstances. Furthermore, we will strengthen our financial foundation by repaying interest-bearing debt. Growth in step with earnings capacity and the creation of value make it possible to contribute to a sustainable society. During the Medium-Term Management Plan 2024 we will work with strong awareness of steady growth.

To our valued stakeholders

More than anything, I want to tell our stakeholders that I want them to look forward to seeing what the CITIZEN Group will be like in 10 years. As I mentioned earlier, it is important to design a concept before starting anything. It was by starting with this design phase that we developed the long-term vision. Moving forward, we will invest our management resources and achieve steady growth in line with the new Medium-Term Management Plan, a specific plan reflecting the long-term vision. This will be realized by the CITIZEN Group’s diverse human resources and technological capabilities cultivated over 100 years of history, including technologies for miniaturization, precision processing, low power consumption and automation.

While continuing to grow sustainably as a company, we will also contribute to society and the environment, thus embodying our Corporate Philosophy, “Loved by citizens, working for citizens.” I appreciate your continued support.



Watches



Managing Director Yoshitaka Oji

Review of the Previous Medium-Term Management Plan

Business conditions during the term of the previous Medium-Term Management Plan were extremely challenging and CITIZEN posted a significant operating loss in FY2020 due to the impact of the COVID-19 pandemic that began in FY2019.

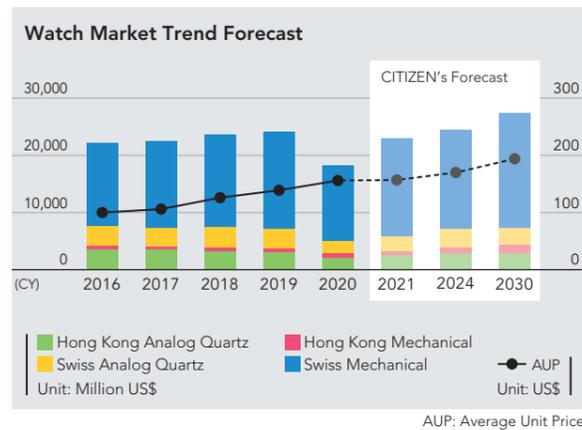
In the meantime, CITIZEN has continued to steadily advance initiatives related to CITIZEN's basic policies, including the promotion of digital marketing, the expansion of our product ranges, the creation of a multi-brand strategy centered on the core CITIZEN brand, and boosting the cost competitiveness of movements and finished products through manufacturing innovation. We have seen significant progress and results so far, but we still have some way to go.

Market Conditions

The watch market saw a significant downturn in FY2020 due to the COVID-19 pandemic, but we believe that the market as a whole is on the road to recovery. Quantities of watches sold in the watch market are expected to decline, particularly in lower price ranges, due to the emergence of smartwatches. From a price perspective, we expect that the continued expansion of high-value-added watches and mechanical watches will result in further market growth. Demand for mechanical watches is steady, and the market is expected to expand further in the near future. In response, CITIZEN will be launching new mechanical watch models as well as enhancing its mechanical watch lineup in keeping with industry trends. Many of our customers have a strong interest in

sustainability, and they are now making purchasing decisions based on the company or brand's willingness to engage in initiatives to promote the SDGs. CITIZEN intends to increase awareness of sustainability even further by promoting CITIZEN's proprietary light-powered watch technology Eco-Drive and the use of eco-friendly materials.

Changes in consumer behavior and values have changed the kind of product value that customers expect from watches. CITIZEN intends to communicate its brand concept and messages more clearly, allowing us to connect and interact more effectively with users to create new kinds of value together.



- Shipment quantities are expected to decline, but shipment values will rise due to stable demand for mechanical watches and unit price increases.
- Inbound demand will recover to some extent, but we do not expect a return to pre-COVID levels in 2024.

Source: Estimates by CITIZEN based on Hong Kong trade statistics and data from the Federation of the Swiss Watch Industry

Medium-Term Management Plan Policy

Improved profitability and sustainable growth

Numerical Targets for FY2024

Net sales	160.0 billion yen
Operating profit	14.5 billion yen
Operating profit margin	9.0%

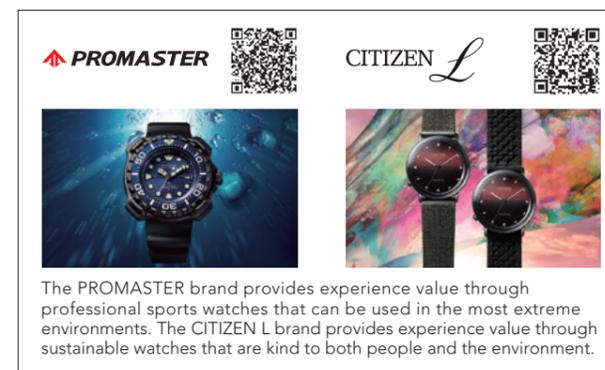
Key Strategies

- 1 Global brand strategy
- 2 Premium brand and mechanical watch strategy
- 3 Continued enhancement of user contact points and data utilization

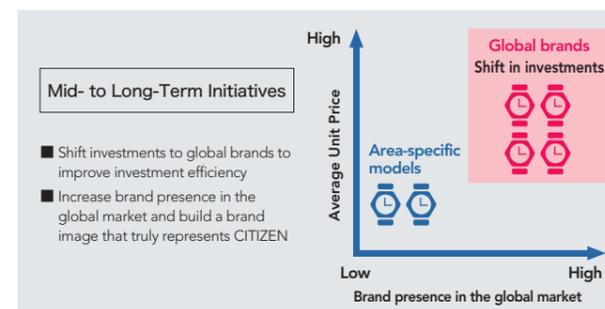
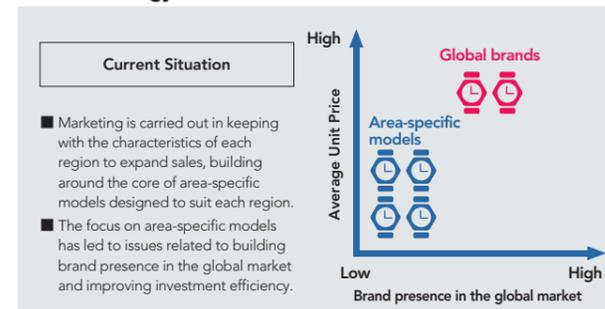
1 Global brand strategy

Promoting the growth of PROMASTER and CITIZEN L as global brands

CITIZEN sells a large number of watches in the global market, and our product lineups are based around area-specific models designed to suit the characteristics of each region. There is a wide variety of CITIZEN-branded models available on the global market, further disseminating the image of the CITIZEN brand worldwide. The current situation has created a number of issues related to building our brand presence and improving investment efficiency. While our main price range in overseas markets is currently 300–800 U.S. dollars, we need to increase the lower end to 400 U.S. dollars and above, a price range where our products are less likely to be affected by competition from smartwatches. To do so, we must focus on producing products that will appeal to customers and improve the brand image and product value of CITIZEN watches. This is the only way we can enhance CITIZEN as a whole. We have chosen PROMASTER and CITIZEN L to be our global brands and we will work to ensure that they achieve growth worldwide. PROMASTER is already a globally recognized brand in the sports watch category where the number of competitors is limited. The CITIZEN L brand focuses on the concept of ethical production, and we believe it will attract more customers who are aligned with CITIZEN's initiatives on a global level. Obviously, this includes Generation Z and other younger customers who have a strong awareness of environmental issues. These two brands will be established as our global brands, and we will expand them even further by shifting investments, including advertising investments, to these brands. At the same time, we will shift from focusing on area-specific models for individual regions to enhancing global models for launch in multiple regions.



Medium-Term Management Plan 2024 CITIZEN Brand Global Strategy



Watches

2 Strategy for premium brands and mechanical watches

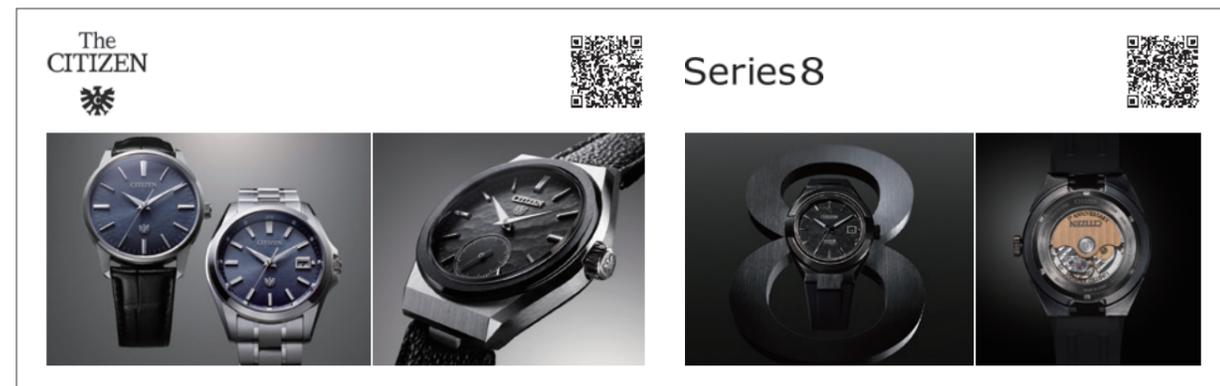
Enhancing the strength of our brand focusing on The CITIZEN and Series 8 mechanical watches

As noted in Market Conditions above, we expect continued growth for high-value-added watches and mechanical watches. In FY2021, we focused on our flagship The CITIZEN brand and introduced Series 8 as our new brand of mechanical watches. Both received an overwhelmingly positive response from the market, further raising expectations for future releases from CITIZEN. Moving forward, we will further refine CITIZEN's technologies to enhance our lineup of mechanical watches. We will also implement strategic marketing activities to communicate brand concepts clearly.

In the Japanese market, we have already launched

CITIZEN Premium Doors, a group of exclusive retail spaces offering premium brand watches from CITIZEN. We will expand the number of Premium Doors stores by 30% compared with FY2021 as part of efforts to enhance our brand presence. As a first step, we will increase brand awareness by focusing on the Japanese market to build a foundation for sales in our premium price range.

In overseas markets, we will gradually strengthen sales efforts using CITIZEN flagship stores and direct-sales e-commerce sites. In the long term, we intend to ensure the full expansion of The CITIZEN and Series 8 into overseas markets as our global brands.



3 Continued enhancement of user contact points and data utilization

Developing customer touch points based on the analysis of user data

In the past, a product's functionality was seen as the main source of value for users. Once a product was sold, the provision of value to users tended to taper off. However, more recently, value for users includes their purchasing and watch wearing experiences, the background and story of each product, as well as maintenance and after-sales service. Moving forward, we will stay connected with users by offering after-sales maintenance as well as providing new products and product information to build a system to strengthen our relationships with users. We will develop multifaceted customer touchpoints, including customer management via members-only websites (My CITIZEN and the CITIZEN Owners Club), the provision of after-sales service, and CITIZEN Timeless City, a virtual city where visitors can experience different aspects of time online. The data obtained through these touchpoints will be effectively shared and analyzed in-house to improve the value of our products and services and

build a cycle of repeated purchases among users. We will connect with users, deepen our understanding of them, and maintain these connections to facilitate the proposal of new services.



<https://city.citizen.jp/>



For crafting a new tomorrow

Technologies powering CITIZEN watches

Environmentally friendly technology

Eco-Drive

In 1976, CITIZEN developed the world's first analog light-powered watch. This proprietary CITIZEN technology, named Eco-Drive, converts even small amounts of light into energy to power watches and stores excess power in a secondary battery. In 1996, Eco-Drive products became the first watches to obtain Eco Mark certification, a label given by the Japan Environment Association (JEA). Eco-Drive went on to be awarded the Gold Prize at the JEA's Eco Mark Awards in 2014.



Technologies that create value

Development of high-value-added watches

Our high-value-added models include the Eco-Drive One, a light-powered watch with a movement just 1.00 mm thick; The CITIZEN Caliber 0100, a light-powered watch accurate to ±1 second per year; and the Caliber 0200 mechanical movement, which combines elements from the watchmaking traditions of both Japan and Switzerland. These models, which offer added value beyond that of conventional watches, create a unique lineup made possible through CITIZEN's in-house capabilities that span design, manufacture of components, assembly, and final adjustments.



Technologies that are kind to people

Titanium processing technologies

Titanium is soft and difficult to process, so CITIZEN uses specialized proprietary processing technologies to process the metal. In addition to pressing, cutting, and polishing processes, we have established a new case processing method in recent years. This new method no longer requires the conventional molds that used to be an essential part of titanium processing. We have also developed automated polishing equipment that delivers a level of polishing comparable to that of an experienced technician. These processes are used to create Super Titanium™ with CITIZEN's proprietary titanium processing and surface hardening technologies to create a unique material that is scratch-resistant, lightweight, gentle on the skin, and resistant to corrosion.

Multi-brand expansion » Increasing brand power through enhancement of our brand portfolio



BULOVA was founded by Joseph Bulova in New York in 1875. With its advanced technological capabilities, the brand has long been a leader in the watch market. Over the years, BULOVA has created many world-firsts, including the world's first tuning fork watch.



Frederique Constant takes inspiration from the concept of "accessible luxury," and all aspects of production are carried out in-house, from design and development to final assembly. The brand's mission is to use its superior manufacturing capabilities to offer high-quality watches at affordable prices.



Arnold & Son bears the name of John Arnold, an English watchmaker who made a name for himself in the 18th century. Inspired by his work, the brand continues to create watches using traditional watchmaking techniques.

Machine Tools

We will enhance our production capacity and reinforce sales and service systems, aiming to achieve continued growth.



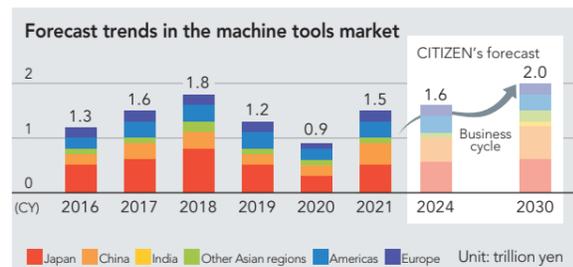
Director Keiichi Nakajima

Review of the Previous Medium-Term Management Plan

In the previous Medium-Term Management Plan, we established the business vision, "Create the world's most advanced production innovation solution to establish our position as a new manufacturing (*monozukuri*) company." Under this vision, we aimed to establish a firm foundation for our business that would enable us to operate smoothly with annual net sales of 80 billion yen by achieving production innovation that would maximize the efficiency of our current management resources. We automated Citizen Machinery's Karuizawa Headquarters factory, drove sales activities focused on attracting customers and proceeded with business process reform. We also built a system for producing and selling MC20, a multi-station machining cell, and worked to expand the sales of existing business by reinforcing our global production and sales system. In addition, we expanded businesses tailored to the age of IoT and explored new business domains, for example, by increasing productivity using an operational monitoring system and reviewing the content of alkapplysolution, which provides total solutions using the latest network technologies and the technologies accumulated by our Machine Tools business. Despite the impact of the COVID-19 pandemic and the difficulty of procuring components, we almost achieved our net sales and operating profit targets. In the new Medium-Term Management Plan, we will continue to enhance the production capacity of our factory in Thailand and Citizen Machinery's Karuizawa Headquarters factory and reinforce our sales and service systems.

Market Conditions

The machine tools market is expected to go in the direction of a full-scale recovery, with the world economy shifting to a post-COVID-19 phase, although the shortage of parts and raw materials and price increases will be inhibiting factors. In the long run, demand for factory automation (FA), labor-saving solutions and automation has been growing, mainly reflecting the decline in the working population and rising labor expenses. In addition, it is expected that CASE* technologies will significantly impact the automotive industry, which will include the expected rapid ubiquitization of electric vehicles (EVs). We need to monitor this trend closely as it could influence the automotive industry greatly. Demand in emerging markets such as China has also been growing, and there is demand for advanced machines with higher-level technologies. At the same time, local manufacturers who are improving their technological capabilities are increasing their presence in these markets.



*CASE: Connected, Autonomous/Automated, Shared and Electric

Policy in the Medium-Term Management Plan

Achieve further growth

FY2024 numerical target

Net sales	86.0 billion yen
Operating profit	12.5 billion yen
Operating profit margin	14.5%

Key Strategies

- 1 Establishment of business foundations with an eye toward achieving net sales of 100 billion yen.
- 2 Differentiation by leveraging processing technologies.
- 3 Expansion of areas where automation/labor-saving measures are applied.

1 Establishment of business foundations with an eye toward achieving net sales of 100 billion yen.

Enhancement of production and sales/service systems

Anticipating the achievement of net sales at 100.0 billion yen, we relocated and expanded our factory in China, expanded our factory in Thailand and built a new building at Citizen Machinery's Karuizawa Headquarters factory in FY2021, aiming to enhance production capacity. In China, there is demand for automation and labor-reducing solutions due to rising labor expenses and other changes in the structure of industry. This has led to an increase in demand for machine tools with high added value from Japanese manufacturers. Large-scale projects of major enterprises are also expected to increase. Determining that the improvement and expansion of production systems was urgently needed to continue supplying machine tools stably in the Chinese market, we expanded our factory. The expanded factory began operating in August 2021 with the goal of achieving automation and smart operation. We also worked to enhance the production capacity of our factory in Thailand, which is also one of our key manufacturing

bases. At the same time, we built a new showroom building with the goal of enhancing our sales and service provision functions. Thus, we have reinforced our structure in the aspects of both manufacturing and sales. In addition, we will construct a new precision machining factory on a site adjacent to Citizen Machinery's Karuizawa Headquarters factory because we need to secure the production capacity of core components, including spindles, in line with the enhanced capacity to produce main units. By increasing our capacity to produce core components, we will establish a system ensuring stable supply. As a result of these investments, our production capacity is expected to increase 40% from the level in FY2021 by FY2023. After securing adequate production capacity, we will work to enhance our sales and service systems further with a focus on Asia, where growth is expected.



New factory in China
Started operation in August 2021
Introduced equipment in stages



Thai Factory
The building in the left back is an expanded facility. The building in the front right is a showroom building.
Scheduled for completion in November 2022



Citizen Machinery's Karuizawa Headquarters factory
Constructing a new precision machining plant on a site adjacent to its current factory (Front)
Scheduled for completion in March 2023

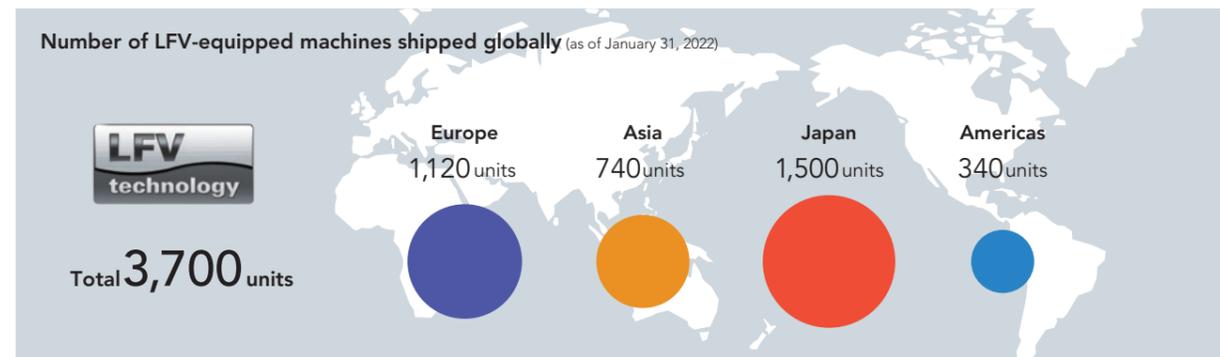
Machine Tools

2 Differentiation by leveraging processing technologies

Expanding sales with a focus on products with LFV technology, CITIZEN's proprietary processing technology

The low frequency vibration (LFV) cutting technology is CITIZEN's proprietary control technology. During the cutting process, LFV technology creates moments when the tool is not in contact with the workpiece, thereby breaking up chips. This helps solve a range of problems at production sites derived from chips and makes a significant contribution to bolstering productivity. We began to incorporate LFV technology in our products in 2013. In 2016, we made it available on the Cincom L20, a long-selling model of the sliding headstock type automatic CNC lathe. We later gradually began to apply this technology in more of our products. Thus, we have continued to provide customers with processing technology solutions, not limited to solutions to chip-related problems. In recent years, sales have slowed due to the COVID-19 pandemic. However, we have strived to

expand sales by holding hybrid events combining the virtual and physical worlds and by making full use of social media. As a result, the cumulative global number of units shipped has exceeded 3,700 (as of January 31, 2022). We first sold products incorporating LFV technology in Japan and began selling them in Europe and the United States in the autumn of 2016. And we began sales in Asia the following year. Customers who purchased the units reaped the benefits of LFV technology, which led to repeat purchases. Thus, the number of customers desiring to purchase machines using LFV technology is increasing all over the world. At present, sales of machines using LFV are increasing in the Asian market, where efficiency is demanded, in addition to the Japanese, European and U.S. markets, where they have been competitive. We aim to increase sales in these regions.



3 Expansion of areas where automation/labor-saving measures are applied.

Strengthening product development and sales systems through the adoption of FA Friendly

Although machine tools were being made capable of complicated and high-precision processing, post-cutting processes that had to be handled by humans were still necessary. As the labor shortage is an ongoing persistent problem, demand from customers for automation and labor-reducing solutions has been growing. FA Friendly is a new solution that caters to such automation and labor-saving needs of customers. We have prepared a series of items that are highly compatible with factory automation, including robot systems, material feeding systems, loaders and unloaders, workpiece stockers and conveyors between machines. We are increasing the variety of these items. By enabling robots to do these post-processes, operators can devote themselves

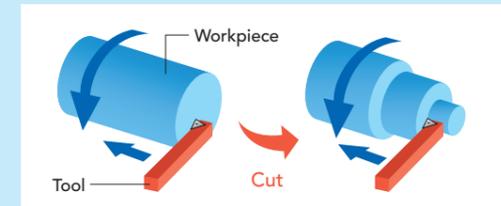


to high-added-value tasks. We will build systems that are necessary for the development and sale of factory automation-friendly products. At the same time, we collect and analyze information about customer needs to propose new solutions for further automating processes and reducing labor.

A quick guide to CNC lathes

Computer-controlled machine tools for making components

A CNC automatic lathe is a kind of machine tool that is used to make components by cutting metal materials. A lathe is a machine that is used to cut a rotating metal material by placing a blade against it. A lathe that uses a computer to control the position and speed of the cut is called a computer numerical control (CNC) lathe.



Cincom
Sliding headstock type automatic CNC lathe



Miyano
Sliding headstock type automatic CNC lathe

Types of CNC lathes

Difference in the type of material fed to the tool

- Bar work machine** It cuts products out of a bar-shaped material, just like slicing a candy bar into pieces.
- Chuck work machine** One workpiece is supplied at a time.

Difference in machine construction

- Lathe with a sliding headstock** The shaft holding the workpiece moves. This design is appropriate for processing workpieces that are long and thin.
- Lathe with a fixed headstock** The cutting tool moves. It is appropriate for processing workpieces that are short and thick.

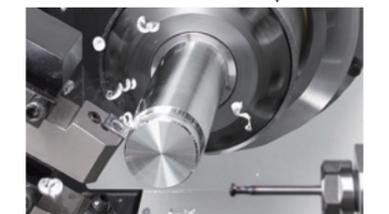
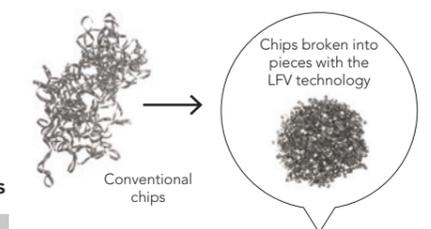
Reduce labor and automate processes at manufacturing sites using

CITIZEN's solutions

Helping improve productivity by using a vibrating servo shaft to break up chips

LFV Technology

Low frequency vibration (LFV) cutting technology is a next-generation processing technology for productivity improvement. It applies CITIZEN's proprietary control technology to vibrate the servo shaft in the cutting direction, creating moments when the tool is not in contact with the workpiece during the cutting process. This breaks up chips during the cutting process, which has solved many long-standing, chip-related problems involved in cutting. This technology dramatically reduces chip volume and helps prevent scratches and other defects on the workpiece surface, permitting high-precision machining over extended periods of time.



Customizable factory automation system

FA Friendly

FA Friendly is a new solution from our Machine Tools business. We have prepared this series of items that are highly compatible with factory automation, including robot systems, conveyors between machines, product conveyors, product storage devices and material feeding systems. We provide on-cart-type units, which are compatible with many different factory layouts, and on-machine-type units, which feature a robot mounted on the machine to save space. With this lineup of solutions, we cater flexibly to customers' automation and labor-reduction needs.



Devices and Components

Establishing a top position in specific fields by offering differentiated products creating the next generation of growth businesses

Leveraging our miniaturization, precision processing and low power consumption technologies developed in the manufacture of watches, we make a wide range of components and products that support the lives of people and society.

Our goal is to establish competitive advantages centered on automotive components, for which we have established a reputation for our precise metal part machining technology. In automotive components, we offer products in the areas of safety, comfort, the environment and controls. We supply automotive manufacturers around the world, primarily with functional components. We are also working to create added value through the rationalization and integration of processing systems made possible with manufacturing facilities we have designed ourselves, as we aim to expand into areas beyond automotive-related

products.

Our LEDs for lighting are next-generation light sources designed in pursuit of high performance, point light source and light quality. Our tactile switches, crystal device components and motors are vital in smartphones, home appliances, consumer electronics and medical devices. We will use these and other proprietary, differentiated technologies to expand our offering of high-quality, high-value-added products in response to market changes. We will continue to focus on advancing our technologies to achieve greater levels of miniaturization, precision processing and low power consumption. We will work to create the next generation of growth businesses by establishing a top position in specific fields and we will move to enhance management stability by transitioning to a leaner earnings structure.



Motors



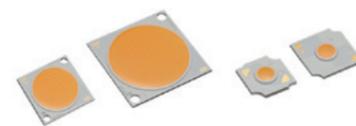
Crystal units, crystal oscillators



Automotive components

Key Strategies

Precision components	
Automotive components	Promote orders for high-value-added products; expand sales of EV parts; develop fields other than the auto parts field
Quartz devices	Expand the wafer business; commercialize new products, using brittle materials and precision processing technology
Motors	Further develop specific markets and develop next-generation technologies to maintain a highly profitable business structure
Opto-devices	
LEDs for lighting	Expand high-efficiency, long-life, environmentally friendly products
Chip LEDs	Enter and expand into new business areas



LEDs for lighting

Electronic and Other Products

Provide electronic products close to people's lifestyles

Our Electronic and Other Products business is based on the miniaturization, precision machining and low power consumption technologies accumulated through watchmaking. The business encompasses the printer business, including photo printers and compact printers, and the healthcare device business, including blood pressure monitors and digital thermometers. Building on our core businesses of high-quality, high-functionality photo printers and healthcare devices made from the customer's perspective, we will work to expand into global niche markets with the goal of driving stable profits.

Electronic devices are increasingly important in a business environment that demands constant evolution, and in day-to-day life, where we seek to promote healthy, active lifestyles. We will continue to pursue new value and convenience while monitoring people's health and lifestyle needs.



Photo printer



Thermometers



Compact printer



Healthcare products

Key Strategies

Electronics	
Photo printer	Grow the sublimation printer business and expand market share
Compact printer	Reinforce the development and sales of products that are strong in specific areas
Healthcare products	Expand e-commerce sales and supporting a healthy lifestyle by enabling at-home healthcare management

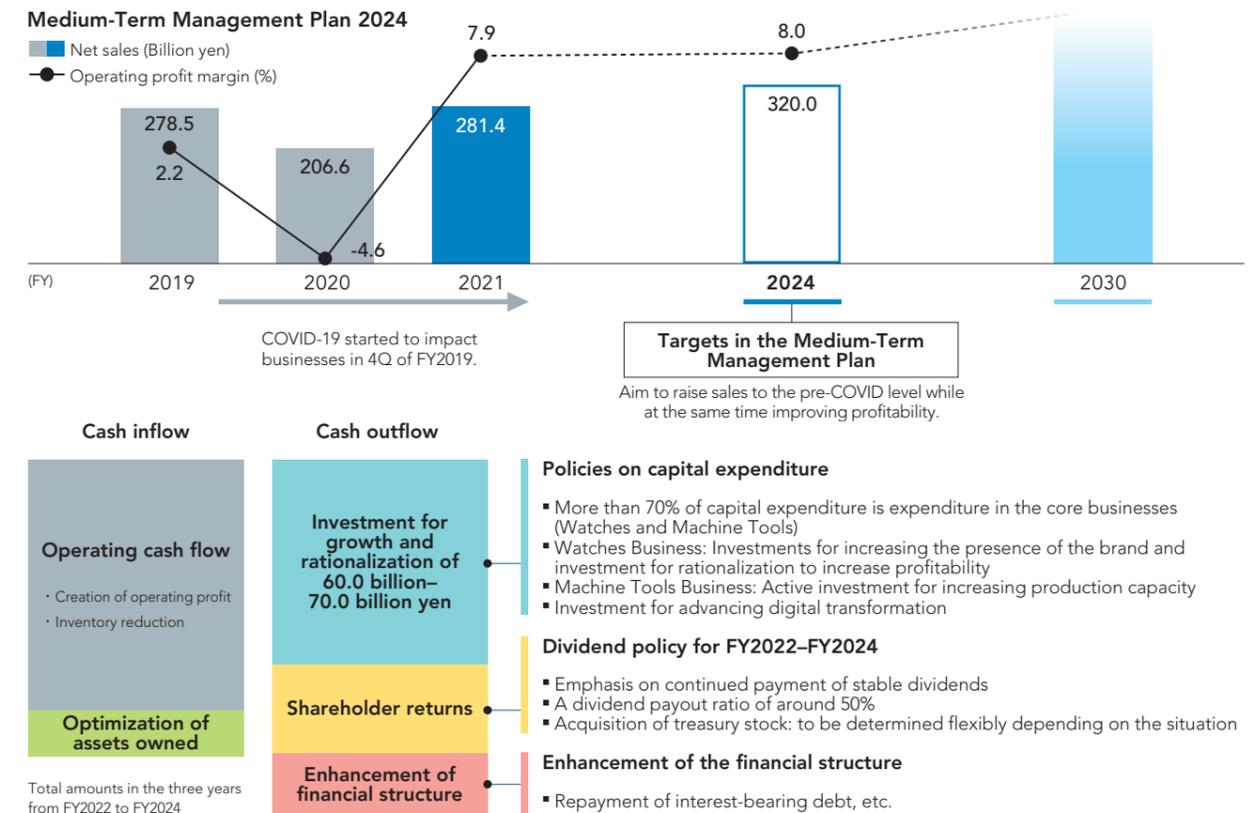


Publishing

Financial Strategies



Managing Director Toshiyuki Furukawa

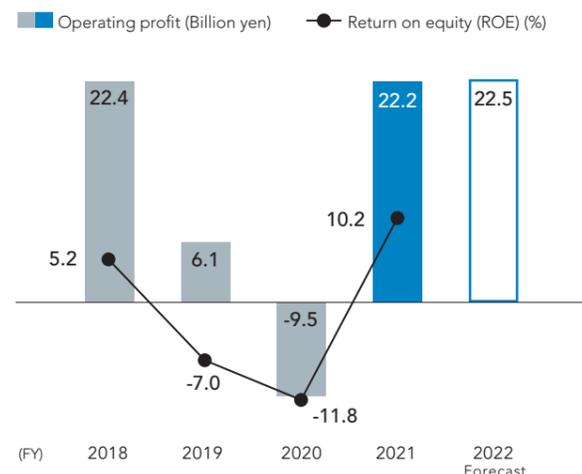


FY2021 financial results and FY2022 forecast

The financial results for the fiscal year ended March 31, 2022, showed a significant year-on-year increase in both net sales and operating profit. This mainly reflects the considerable recovery in Watches and Machine Tools, our mainstay businesses, from FY2020 when they were greatly affected by the COVID-19 pandemic. In addition, ordinary

profit increased due to foreign exchange gains and other factors, and tax expenses decreased chiefly due to a decrease in the valuation allowance for deferred tax assets. As a result, we posted a record-high profit attributable to owners of parent. For FY2022, we forecast net sales of 293.5 billion yen, up 12.0 billion yen year on year; operating profit of 22.5 billion yen; ordinary profit of 24.0 billion yen; and profit attributable to owners of parent of 18.0 billion yen. In FY2021, we tightly controlled expenses, partly reflecting the COVID-19 pandemic. In FY2022, however, operating profit is expected to increase only slightly due to an expected increase in advertising and other expenses reflecting the normalization of business activities, as well as more aggressive investment in growth and rising parts, logistics and energy costs, among other factors. In the Watches business, we expect North America to remain strong and we anticipate a recovery in Japan and Asia. However, the forecast indicates that China will remain flat year on year. In the Machine Tools business, we will steadily respond to the high level of orders. The Devices and Components business is also expected to trend toward recovery overall. In the Electronic and Other Products segment, printer production is expected to be affected by semiconductor procurement difficulties. We expect to secure an increase in profit, with the mainstay Watches and Machine Tools businesses remaining the driving force for this.

Business Results (Operating Profit/ROE)



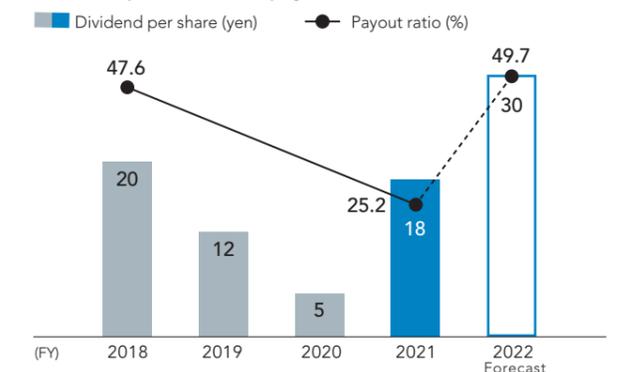
Capital strategy under the Medium-Term Management Plan 2024

We position the Watches and Machine Tools businesses as our core businesses that drive the Group's growth, and we will strategically invest our resources in these businesses, aiming to achieve further growth. We will improve profitability to increase net sales to exceed the level before the COVID-19 pandemic by FY2024. From the funds gathered through these initiatives, we plan to appropriate 60.0 billion–70.0 billion yen for growth and rationalization investments to be made throughout the period from FY2022 to FY2024, and we will allocate more than 70% of this to our core Watches and Machine Tools businesses. In the Watches business, we will shift investments to global brands, thereby enhancing brand presence to establish a unified brand image in the global market. We will also make rationalization investments to improve profitability. In the Machine Tools business, we will accelerate growth investment to increase our production capacity in anticipation of further growth. In addition, we will utilize a variety of data and develop user touchpoints, aiming to be a corporate group that is able to create and increase value continuously from the user's perspective. We will also continue investments aimed at furthering digital transformation.

Shareholder returns policy

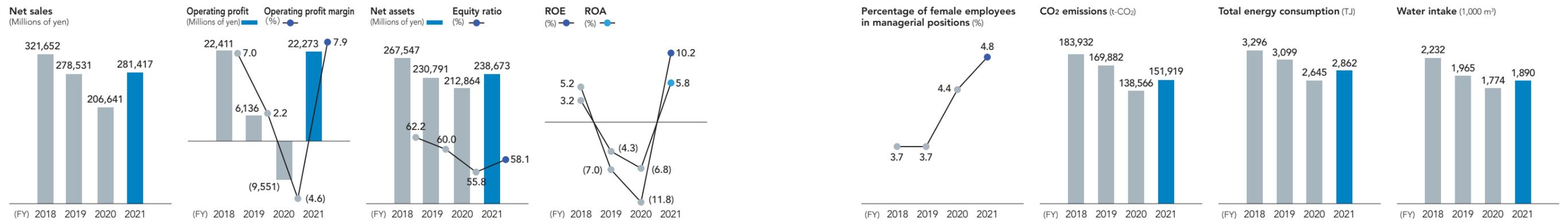
Following our dividend policy in the Medium-Term Management Plan 2024, we determine the amount of dividends based on a target dividend payout ratio of around 50% and attach importance to stably and continually paying high dividends. We will make flexible decisions on the acquisition of treasury stock to reflect circumstances. We plan to pay a full-year dividend of 30 yen per share for FY2022, comprehensively taking into consideration stable dividend payments and results trends, among other factors.

Dividend per share and payout ratio



Financial and Non-financial Highlights

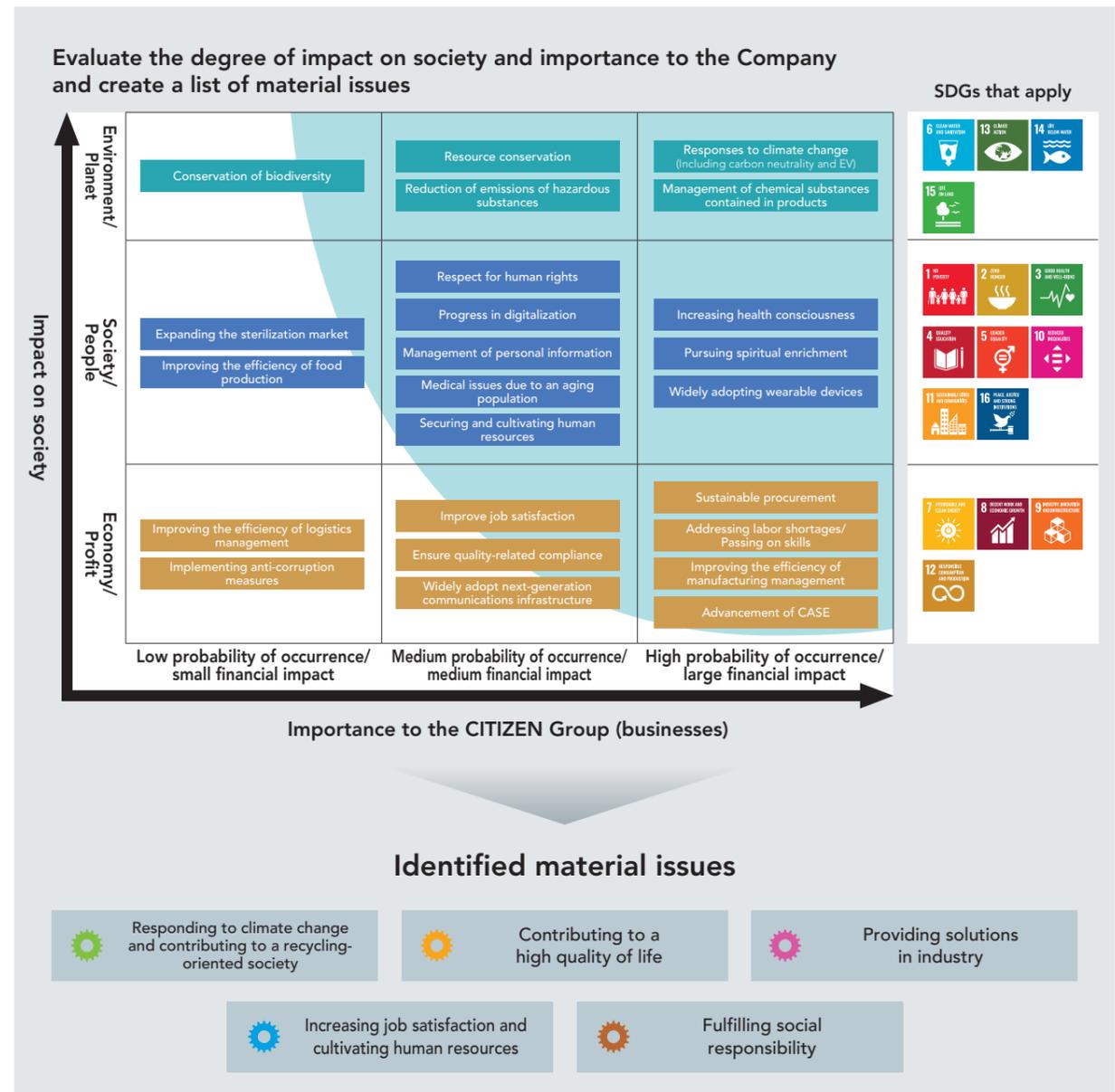
		(FY)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Financial Data	Operating Results												
	Net sales	(Unit) Million yen	279,786	272,050	309,994	328,456	348,267	312,559	320,047	321,652	278,531	206,641	281,417
	Gross profit	Million yen	98,809	95,451	119,376	129,876	134,759	120,236	124,393	123,557	101,100	65,898	106,839
	Operating profit	Million yen	16,528	11,549	23,706	27,889	30,467	21,501	24,920	22,411	6,136	(9,551)	22,273
	Operating profit margin	%	5.9	4.2	7.6	8.5	8.7	6.9	7.8	7.0	2.2	(4.6)	7.9
	Ordinary profit	Million yen	16,727	13,805	25,307	31,403	30,619	21,985	26,664	26,602	7,531	(4,143)	27,342
	Profit attributable to owners of parent	Million yen	7,698	(8,855)	17,434	17,572	13,201	16,573	19,303	13,369	(16,667)	(25,173)	22,140
	Status of Cash Flows												
	Cash flows from operating activities	Million yen	19,545	18,789	32,724	29,053	29,980	32,781	32,539	19,897	17,347	7,489	34,693
	Cash flows from investing activities	Million yen	(15,135)	(23,853)	(11,000)	(9,246)	(24,637)	(27,861)	(7,862)	(19,861)	(15,498)	(7,627)	(9,550)
	Cash flows from financing activities	Million yen	(3,198)	95	181	(9,745)	(12,205)	(20,626)	(11,716)	(5,888)	(7,049)	18,336	(19,956)
	Free cash flow	Million yen	4,410	(5,064)	21,724	19,807	5,343	4,920	24,677	36	1,849	(138)	25,142
	Key Financial Indicators												
	Total assets	Million yen	338,025	354,670	383,920	421,563	406,462	395,887	409,909	413,911	369,575	365,811	394,962
	Net assets	Million yen	188,853	192,409	217,412	247,972	237,469	249,215	263,713	267,547	230,791	212,864	238,673
	Interest-bearing liabilities	Million yen	73,222	73,961	78,348	69,164	67,444	53,031	49,027	51,065	55,157	74,862	66,155
	Return on equity (ROE)	%	4.2	(4.7)	8.7	7.8	5.7	7.1	7.8	5.2	(7.0)	(11.8)	10.2
	Return on assets (ROA)	%	2.3	(2.6)	4.7	4.4	3.2	4.1	4.8	3.2	(4.3)	(6.8)	5.8
	Equity ratio	%	55.5	53.3	55.8	56.6	56.0	60.5	61.9	62.2	60.0	55.8	58.1
	Capital expenditures	Million yen	17,265	19,780	14,003	18,913	22,822	23,621	16,854	23,756	21,140	10,907	10,770
Depreciation	Million yen	14,249	15,406	14,282	14,386	14,934	12,509	13,795	13,947	15,438	11,558	11,191	
R&D expenses	Million yen	8,012	7,595	7,440	8,169	7,500	7,113	7,161	6,339	6,164	5,576	5,542	
Total amount of dividends	Million yen	2,592	2,591	4,211	5,183	5,411	5,410	7,002	6,365	3,752	1,565	5,504	
Non-financial Data	Number of employees	(Unit) People	23,725	22,668	22,233	23,651	21,665	21,279	20,882	20,239	19,593	17,044	16,161
	Percentage of female employees	%	-	-	-	-	18.6	19.4	19.4	23.8	20.6	20.3	20.5
	Number of female employees in management positions	People	-	-	-	-	35	35	35	36	36	38	42
	Percentage of female employees in management positions	%	-	-	-	-	3.6	3.5	3.6	3.7	3.7	4.4	4.8
	Percentage of overseas employees	%	63.0	62.1	64.5	65.3	60.5	60.0	59.7	58.2	56.7	59.5	59.2
	CO ₂ emissions (Scope 1 + Scope 2)	t-CO ₂	218,586	212,170	198,041	217,145	196,152	193,318	186,169	183,932	169,882	138,566	151,919
	Total energy consumption	GJ	3,474,206	3,438,042	3,227,134	3,504,700	3,242,847	3,314,308	3,298,296	3,296,280	3,099,085	2,645,607	2,862,789
	Water intake	1,000 m ³	3,445	3,086	2,333	2,639	2,751	2,309	2,191	2,232	1,965	1,774	1,890
	Recycling rate	%	63.0	66.4	75.9	59.5	64.6	66.6	74.3	78.6	77.3	78.3	73.1



Identifying Material Issues

In line with the formulation of our long-term vision, we evaluated the importance of social issues from the perspective of our company and society, and identified material issues, which are key issues that the CITIZEN Group should prioritize in the medium to long term.

- Process 1 Identifying social issues**
Identify social issues based on medium- to long-term social trends; company direction; external ESG evaluations and reviews; SDGs; macro trends in the environmental, social and economic fields; GRI standards; and the ISO26000 standard, etc.
- Process 2 Evaluating the importance of social issues**
Evaluate the degree of impact on society and importance to the Company and create a draft proposal of material issues
- Process 3 Evaluating the validity of the material issues proposal**
Confirm with external experts and discuss in the Sustainability Committee, then reconsider the material issues proposal considering the applicable measures for each business
- Process 4 Specifying material issues**
After repeat checking by the Sustainability Committee, the Management Committee and Board of Directors meet to formally specify material issues



Materiality	Major risks and opportunities	Key measures
Responding to climate change and contributing to a recycling-oriented society 	Risks <ul style="list-style-type: none"> Office damage from wind and flood damage Increased energy costs Dependency on specific industries and customers Violation of laws and regulations concerning chemical substances contained in products Opportunities <ul style="list-style-type: none"> Growing demand for products and services that contribute to energy and resource conservation and improved productivity Advancement of CASE 	Business activities <ul style="list-style-type: none"> Supply parts to eco-cars (EV, HV); sell LEDs for lighting Expand products in which LFV technology and friction bonding technology are embedded Reduce CO₂ emissions and expand the use of renewable energy Business foundation <ul style="list-style-type: none"> Sell photovoltaic watches and mechanical watches that can be used for a long time Reduce water consumption, promote recycling, manage hazardous chemical substances and reduce packaging materials
Contributing to high-quality life 	Risks <ul style="list-style-type: none"> Widespread adoption of smart watches Intensifying competition in the healthcare market Regulatory reforms for medical devices Leakage of personal information Opportunities <ul style="list-style-type: none"> Shift from functional value to sentimental/emotional value Shift from treatment to preventive medicine 	Business activities <ul style="list-style-type: none"> Provide customized watches and services Provide an IoT platform for personalized experience Provide LCD devices for digital cameras, head-mounted displays, etc. Promote sales of UVC modules with high disinfection efficiency and sample holding plates for bacterial analysis Provide thermometers and blood pressure monitors that everyone can use Provide Health Appointment, a digital healthcare service
Providing solutions in industry 	Risks <ul style="list-style-type: none"> Loss of business opportunities Decline of competitiveness Market entry by competitors from other industries armed with digital technologies Opportunities <ul style="list-style-type: none"> Factory automation/labor saving/automation/digitalization Advancement of CASE Widespread adoption of next-generation communications infrastructure 	Business activities <ul style="list-style-type: none"> Use and provide machines and digital technology, and techniques for the effective use of them Provide solution-oriented production facilities and self-service terminal solutions Provide time reference information to organizations that need accurate time information Develop and sell sensing devices (including remote-controlled robots) Develop and sell lasers for signal lamps of electric vehicles Supply parts for advanced brake systems, communications systems and sensors
Increasing job satisfaction and cultivating human resources 	Risks <ul style="list-style-type: none"> Outflux of human resources Worsening business performance Opportunities <ul style="list-style-type: none"> Improvement of employee engagement Promotion of DX/innovations 	Business foundation <ul style="list-style-type: none"> Take steps to improve employee engagement; provide education opportunities Focus on developing management talent who will promote transformation and strengthen cooperation among Group companies Systematically foster female candidates for managerial positions and promote women to management; encourage male employees to take childcare leave
Fulfilling social responsibility 	Risks <ul style="list-style-type: none"> Damage to corporate value Reputation Weakening of business/management base Opportunities <ul style="list-style-type: none"> Creation of sustainable factories Conforming with the terms and conditions for transactions with major customers 	Business foundation <ul style="list-style-type: none"> Update significant risks at the Group and implement risk management Make employees aware of the Quality Code of Conduct Establish human rights due diligence procedures CSR procurement, green procurement, responsible procurement of minerals, etc.

Sustainable Management

<https://www.citizen.co.jp/global/csr/index.html>



At the CITIZEN Group, we aim to remain needed and loved by people all over the world. For this purpose, our creation of products and services in response to changes in society, our consideration of procurement and production processes for the creation of those products and services, and the corporate attitude that supports our foundation must be accepted by society. Instead of just providing good products and services, we strive to earn the trust of stakeholders as we expand our businesses and improve our corporate value, by managing the Group in consideration of human rights, the global environment and other social issues. This is what we believe to be sustainable management at the CITIZEN Group.

Structure for Promoting Sustainable Management

In April 2020, we established the Sustainability Committee, which is chaired by the president of Citizen Watch. Its members are full-time directors of Citizen Watch and presidents of operating companies. With this committee playing a leading role, each company examines sustainability-related issues and regularly monitors the progress of sustainability activities, etc.

Sustainability promotion structure

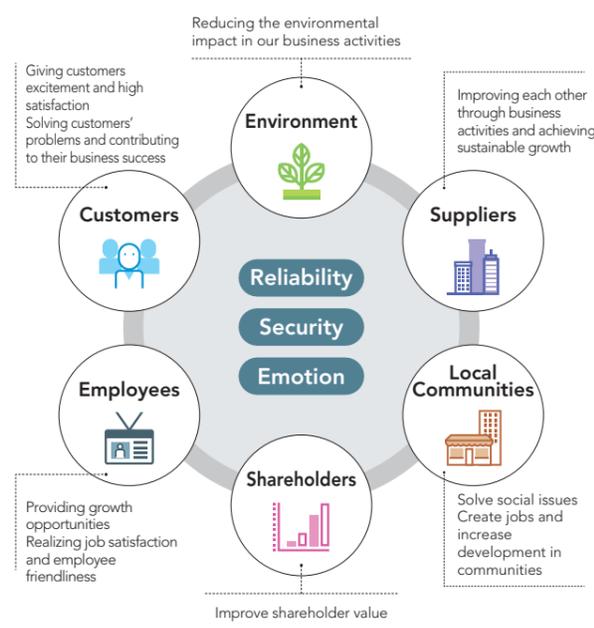


Sustainable Factory

At the CITIZEN Group, we value the concept of the Sustainable Factory, under which we consider the processes for manufacturing products and providing services in the operation of our businesses. Sustainable Factory refers to sustainable production facilities, business facilities and business processes that reflect comprehensive consideration for matters such as compliance, human rights, labor practices, BCP* and productivity improvement, as well as environmental considerations. The target of the CITIZEN Group overall is to achieve the Sustainable Factory concept by 2030. To achieve the sustainability of factories throughout the value chain as well as the factories within the Group, we must cooperate with the entire supply chain, including our business partners. Therefore, we are pushing forward with activities to enable our stakeholders to understand this concept.

*BCP (Business Continuity Plan): A business continuity plan is formulated during normal times to prepare for the possible impact of large disasters and similar events on business activities. These plans include systems, functions, response procedures and other elements necessary for continuing to supply products and services or for enabling the fast resumption of operations.

Value that we create for stakeholders through sustainable management (outcomes)



Environment



Value we create for stakeholders

- Business activities that reduce the environmental impact

Related material issues

- Responding to climate change and contributing to a recycling-oriented society

CITIZEN Group Environmental Goals 2030

At the CITIZEN Group, we promote global environmental management for the realization of a sustainable civil society by following the CITIZEN Group Environmental Policy, which is the core of our environmental measures. In 2020, we established the CITIZEN Group Environmental Vision 2050, expressing our commitment to decarbonization, the reduction of CO₂ emissions to substantially zero and the sustainable use of resources. To achieve the CITIZEN Group Environmental Goals 2030, which are five goals aimed at helping to achieve the SDGs, we are pushing forward with initiatives to establish a decarbonized, resource-recycling, safe, secure and spiritually wealthy society.

Response to climate change

The CITIZEN Group revised its Scope 1 and 2 CO₂ emission reduction target in FY2022 to push forward with initiatives addressing climate change, which we regard as a material issue. As a result, we now aim to reduce emissions by 50.4% from the FY2018

level by FY2030. We are also revising our Scope 3 emission reduction target, which applies to emissions from the supply chain. We also aim to acquire SBT certification by FY2024. We will continue to increase the use of renewable energy in our facilities all over the world and push forward initiatives to reduce the CO₂ emissions of the entire supply chain, with the goal of enabling the realization of a decarbonized society.

TCFD—Risks and opportunities

As a measure to mitigate climate change, which is one of the most serious global environmental risks, we are working to reduce the GHG emissions of the CITIZEN Group as a whole. To express our commitment to mitigating climate change, we participate in the Japan Climate Initiative, and in FY2020, we announced our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Based on the TCFD recommendations, we are assessing and identifying risks and opportunities that could significantly impact the Group's businesses and finances using the 1.5°C scenario and the 4°C scenario. In addition, we have set targets for reducing Scope 1, 2 and 3 GHG emissions and increasing the percentage of renewable energy that we use in Japan in the CITIZEN Group Environmental Vision 2050 and the CITIZEN Group Environmental Goals 2030 for the purpose of assessing and managing the risks and opportunities related to climate change. We will continue working to disclose more climate change-related information in accordance with the TCFD recommendations while pushing forward initiatives to achieve the targets.

CITIZEN Group Environmental Goals 2030 (Revised in February 2022)

Metrics	Targets
Greenhouse gas emissions (Scope 1, Scope 2)	30% reduction → 50.4% reduction (from the FY2018 level)
Greenhouse gas emissions (Scope 3)	15% reduction (from the FY2018 level)
Percentage of renewable energy (Japan)	30% → 62%

Results of scenario analysis

Category	Material issues (risk/opportunity)	Impact on CITIZEN		Time span		
		1.5°C	4°C	Until 2024	2025–2030	From 2031
Transition risks	Policies and legal restrictions	Large	Small	Cost increase resulting from the introduction or tightening of laws or regulations (carbon pricing schemes)		
	Technologies and markets	Small	Large	Rising cost of raw materials, etc., and shortage or suspension of their supply		
	Reputation	Medium	Small	●	●	●
Physical risks	Acute risks	Small	Large	Increasing seriousness and frequency of damage from natural disasters		
	Chronic risks	Medium	Large	Increase in operating expenses due to the impact of, and measures against, abnormal weather		
Opportunities	Energy and resource efficiency	Small	Large	Disruptions to production activities due to supply chain disruptions		
		Large	Small	Cost reduction resulting from energy conservation		
	Medium	Medium	●	●	●	
	Medium	Small	Cost reduction resulting from resource conservation, 3R activities, zero waste emissions and conservation of water resources			
	Medium	Small	Differentiation and greater competitiveness achieved by developing products using alternative materials. Realizing decarbonization of the entire life cycle of products using alternative substances and weight reduction			
Products, services and markets	Medium	Small	Increase in earnings resulting from an increase in demand for environmentally friendly products and services			
	Medium	Medium	●	●	●	
Resilience	Medium	Medium	Higher customer trust resulting from implementation of countermeasures against natural disasters			
	Medium	Large	●	●	●	

Employees



Value we create for stakeholders

- Providing growth opportunities
- Realizing job satisfaction and employee friendliness

Work-style reform and human resource development

At the CITIZEN Group, we believe that securing and developing excellent human resources leads to reinforcement of our business foundation. Each Group company takes the initiative in driving the creation of a comfortable workplace environment where diverse human resources can fulfill their potential. For human resource development, the 360-degree evaluation, which Citizen Watch has been conducting since FY2019, is used to enhance human resource management and training content. We also support diverse work styles. For example, in FY2021 we introduced the Full-Remote System, under which employees can work fully from home, in principle.

Diversity and inclusion

Management has a duty to create an environment where the personal qualities of every employee are respected and diversity is recognized and leveraged. The CITIZEN Group is introducing working arrangements focused on the enhancement of career training and a work-life balance, aiming to establish an employment environment that enables women to continue to participate actively. We have set a target of increasing the percentage of managers who are women to 10% or higher by FY2025. We are also proactively hiring people with disabilities. For more than 40 years, we have been outsourcing tasks such as the counting of wristwatch parts and other components, packaging and watch disassembly to support the employment of people with disabilities.



CITIZEN Forest was created under the concept of being able to work both indoors and outdoors. At Tokyo Works, we planted 215 trees and created a space that is richly endowed with nature, attracting local birds and insects. This space won a 2021 Good Design Award.

Related material issues

- ⚙️ Increasing job satisfaction and cultivating human resources

Health and productivity management

The CITIZEN Group published its Health Declaration as part of its efforts to create a comfortable workplace environment. We promote health and productivity management, and as part of this we consider and practice employee health management from a management perspective. The percentage of our employees who have health checkups is 100%, and 94.3% of them undergo stress checks. In addition, many employees are involved in voluntary health measures such as cancer screenings. We also implement mental health measures. Our health and productivity management received a high evaluation from an external organization, and Citizen Watch was recognized by the 2022 Certified Health & Productivity Management Outstanding Organizations Recognition Program.

Occupational safety and health

The CITIZEN Group attaches importance to safety and health in the workplace environment, as stipulated in Article 4 of the CITIZEN Group Code of Conduct, which says, "Respect human rights and diversity, and provide a safe and pleasant working environment." In June 2022, we revised the CITIZEN Group Basic Policy on Health and Safety, which we formulated to ensure that employees are fully informed of safety and health-related laws and regulations and to ensure compliance. Through this revision, we expanded the scope of the application of the safety policy from the Group's employees to include our suppliers, including our business partners, with the goal of improving safety and health throughout the supply chain.

See the following webpage for the CITIZEN Group Basic Policy on Health and Safety.

<https://www.citizen.co.jp/global/csr/policy>



Customers



Value we create for stakeholders

- Giving customers excitement and high satisfaction
- Solving customers' problems and contributing to their business success

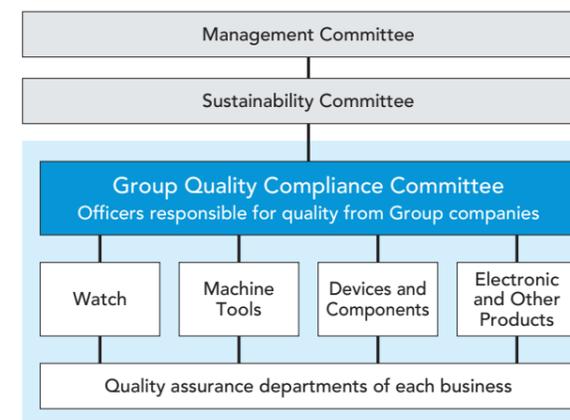
Quality compliance

At the CITIZEN Group, we make Group-wide efforts to strengthen quality compliance, aiming for the sustainable provision of products and services reflecting full consideration of reliability, safety, quality and the environment.

Framework for promoting quality compliance

To effectively share an understanding of quality compliance, we are taking steps to raise awareness of the CITIZEN Group Quality Code of Conduct across the Group, including our overseas branches. The leading role in these activities is being played by the CITIZEN Group Quality Compliance Committee, which consists of officers responsible for quality from Group companies. In addition to striving to instill quality compliance, this Committee endeavors to fulfill requests from stakeholders from a range of business fields, while also seeking to improve the effectiveness of the whistleblowing system and the perspectives of ESG and the SDGs.

Quality compliance framework



Roles and achievements

- Formulation of the CITIZEN Group Quality Code of Conduct, implementation of measures to raise awareness of it and provision of relevant training
- Quality compliance training
- Integration of the CITIZEN Group Quality Code of Conduct with ISO and QMS

Related material issues

- ⚙️ Contributing to high-quality life
- ⚙️ Providing solutions to industry
- ⚙️ Fulfilling our social responsibility

Customer engagement

Citizen Watch compiles inquiries and requests received by its customer service office in the VOC Report to share with the relevant departments. The aim is to drive initiatives leveraging customers' voices to improve customer satisfaction further. In addition, we implemented New TiMe, New Me, a social campaign. We use valuable customer opinions obtained through this campaign to improve our products and services, ensure safety and encourage universal design.

Ensuring quality compliance

At the CITIZEN Group, we are pursuing initiatives to ensure quality compliance by setting KPIs for achieving our goals by FY2030. In FY2021, we achieved the target of implementing activities to raise awareness of the CITIZEN Group Quality Code of Conduct twice. In addition, the percentage of employees who received e-learning was 98.8% and that of employees who are aware of the Compliance Hotline increased to 82.0%. Moreover, the CITIZEN Group Quality Compliance Committee had opportunities to share information about quality issues and discuss the determination of causes of the issues and measures to prevent them four times during the year as part of its efforts to strengthen and improve quality compliance.

Training provided in FY2021

Training program
Compliance training
Details
<ul style="list-style-type: none"> ■ Improving understanding of the CITIZEN Group Quality Code of Conduct ■ Raising awareness of the Compliance Hotline
Number of participants (targets)
e-learning: 6,250
Individual training: 53
The Group's new officers: 14 The Group's new employees: 39 Total: 6,303

Business Partners



Value we create for stakeholders

- Improving each other through business activities and achieving sustainable growth

Related material issues

- Fulfilling social responsibility

CSR procurement

At the CITIZEN Group, we aim to achieve the Sustainable Factory in the overall supply chain. For this purpose, we have established the CITIZEN Group Basic Procurement Policy and request our business partners all over the world to comply with, and raise their awareness of, the CITIZEN Group CSR Procurement Guidelines. These Guidelines summarize the requirements, including respect for human rights, environmental protection, labor safety and health, and fair trade, based on the UN Global Compact and the CITIZEN Group Code of Conduct. At the CITIZEN Group, we conduct a Self-Assessment Questionnaire (SAQ) survey of all our business partners in Japan and a fact-finding survey of our business partners that we have created on our own, as part of measures to identify CSR procurement risks. Moreover, for important suppliers, which are ranked in the top 90% in terms of the volume of procurement transactions or that deal in important items, we hold explanatory sessions and take other measures in addition to conducting SAQ surveys, thus requesting that they comply with the CITIZEN Group CSR Procurement Guidelines. We aim to achieve compliance with the CITIZEN Group CSR Procurement Guidelines of 100% at the CITIZEN Group and 70% among important suppliers by 2030.

Initiatives related to minerals

At the CITIZEN Group, we are aware that conflict minerals involving risks of funding armed groups and violating human rights are material procurement risks. In addition to the application of the EU Conflict Minerals Regulation in 2021, we recognized the expansion of the scope of target minerals, areas and risks and updated the CITIZEN Group Conflict Minerals Response Policy into the CITIZEN Group Responsible Minerals Procurement Policy in January 2021. In revising the policy, we referred to international guidelines and other resources and clarified measures to take when we have confirmed the expansion of target minerals and areas as procurement sources or have identified a risk, among other matters. Moreover, we strive to eliminate conflict minerals as a supplier. For example, together with suppliers from whom we procure target minerals, we at the CITIZEN Group observe the Responsible Business Alliance (RBA) Code of Conduct at the request of customers to whom we deliver parts or other products. The overall Group's measures related to procurement of conflict minerals are taken under the initiative of the CITIZEN Group Sustainable Procurement Committee.

Human rights initiatives

Human rights risks within the CITIZEN Group are overseen by the Group Human Resources Committee. On the other hand, those risks expected in the supply chain are identified and addressed by the CITIZEN Group Sustainable Procurement Committee. In FY2021, we identified human rights risks in the supply chain by targeting primary suppliers (manufacturing factories) and secondary suppliers (raw material suppliers) in the Watches business. Specifically, we identified the risks by referring to the method of identifying human rights risks that we acquired through an expert study session held by the CITIZEN Group Sustainable Procurement Committee and materials used in the Stakeholder Engagement Program of Caux Round Table, among others. We also collected information by interviewing people who have lived overseas. As a result, we discovered potential risks about conflict minerals and the work environment of raw material suppliers. We will consider how to minimize the risks.

Regarding children's rights, we support the Children's Rights and Business Principles (CRBP) of the Japan Committee for UNICEF and engage in activities to avoid infringement of children's rights in business and to realize children's rights. Since FY2013, we have been supporting the activities of Plan International, an international NGO. In FY2021, we participated in a project to improve the environment of female student dormitories of elementary and junior high schools in Vietnam. In addition to assisting with the dormitories, we contributed to education and training activities.



A remote supplier audit

Local Communities



Value we create for stakeholders

- Solutions to social issues
- Job creation and development in communities

Related material issues

- Fulfilling social responsibility

CITIZEN OF THE YEAR

Honoring individuals who inspire society

At the CITIZEN Group, we commend citizens residing in Japan who have made a mark on civil society, who have contributed to the development and happiness of civil society, or who have helped make civil society attractive, as CITIZEN OF THE YEAR every year. This award program was established by Citizen Watch in 1990. Although we live in an era when citizens are considered the main players in society, there was virtually no award program for commending citizens from a broad perspective. Recognizing this, the Company, which includes "CITIZEN" in its name, established the program. Here we introduce the initiatives and activities of the three outstanding individuals to whom we granted the award in FY2021.

<https://www.citizen.co.jp/global/coy/index.html>



Computer programming classes for high school students from economically disadvantaged families



Daiki Hirai

Mr. Hirai provides high school students from disadvantaged backgrounds with a variety of support, including free computer programming study support and career support. He aims to build a society where anyone can have hopes in their future, regardless of the environment where they were born and raised.



A teacher (left) and a student (right): Free PCs and travel expenses are provided to high school students who attend computer programming classes.

Support for research for curing Rett syndrome



Tetsuji Tanioka

Mr. Tanioka founded an NPO immediately after his daughter was found to have Rett syndrome, an intractable disease designated by the government. He has been supporting exchanges between patients and their families, serving as a bridge between patients and researchers, and providing grants to research aimed at establishing a treatment method or developing a therapeutic drug. He has also developed an app with which patients and their families can share information about the disease. The information is provided to researchers and used for the development of a therapeutic drug.



Mr. Tanioka (far left): Reflecting the desire of people on the patients' side to support research, he collected donations and used the funds to provide grants to research aimed at establishing a treatment method or developing a therapeutic drug.

Contributing to rehabilitating juveniles with education of the mind through painting



Kazuyuki Iida

Mr. Iida, an artist, has been teaching painting at Obihiro Juvenile Training School for more than 30 years as a volunteer who helps juveniles rehabilitate and return to society. He observes each inmate in the classroom, where talking is prohibited, aiming to have them complete each piece of work with patience. Thus, he has been teaching inmates how important it is to find something one can be absorbed in and carry it through without giving up on it.



Mr. Iida (second from right): Feeling that juveniles have something in common with him, he has been engaging in this activity for more than 30 years

Loved by citizens, working for citizens—This is the sentiment from which Citizen Watch Co., Ltd. (“the Company”), derives its name and which it has made its Corporate Philosophy. The Company works to contribute to society and increase its corporate value through sustainable corporate activities, in harmony with the local community and the global environment. To continue to promote its aims, the Company believes it is important to ensure transparency in management and multifaceted management oversight. Accordingly, the Company is striving to expand and enhance its corporate governance.

CITIZEN has implemented all the principles set forth in the Corporate Governance Code revised in June 2021.

<https://www.citizen.co.jp/cms/cwc/global/files/CGR2022E.pdf>



Corporate Governance System

CITIZEN has established the following corporate governance system with the aim of ensuring appropriate and efficient execution of duties, transparency of management and monitoring of management from various perspectives.

Board of Directors

CITIZEN’s Board of Directors comprises six Directors who supervise the corporate group and perform executive duties regarding major businesses and three Outside Directors who check and supervise management from an independent standpoint, using their abundant experience and broad-ranging insights as business managers. The Board of Directors makes decisions on and supervises the execution of business.

▶ FY2022 Number of meetings: 17

Nomination Committee Chairperson: Outside Director

The main duties of the Nomination Committee include deliberating on matters regarding the selection and/or dismissal of Representative Directors, the President and CEO, and/or the Chairperson of the Board of Directors, and offering its proposals to the Board of Directors.

▶ FY2022 Number of meetings: 3

Compensation Committee Chairperson: Outside Director

The main duties of the Compensation Committee include deliberating on matters relating to policies and standards for compensation, etc., received by Directors and making recommendations to the Board of Directors.

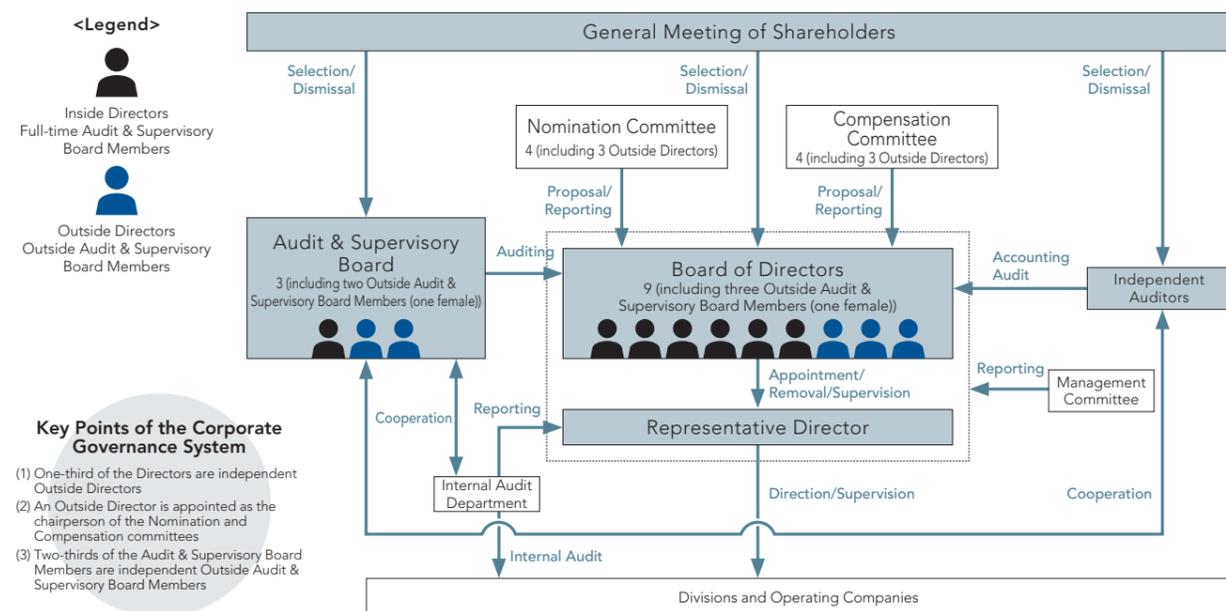
▶ FY2022 Number of meetings: 3

Audit & Supervisory Board

Audit & Supervisory Board Members carry out strict audits of execution of duties by Directors in accordance with the audit policy and audit plans formulated by the Audit & Supervisory Board. Audit & Supervisory Board Members also receive reports from Accounting Auditors and conduct audits of the Company and its subsidiaries efficiently in cooperation with the Accounting Auditors.

▶ FY2022 Number of meetings: 13

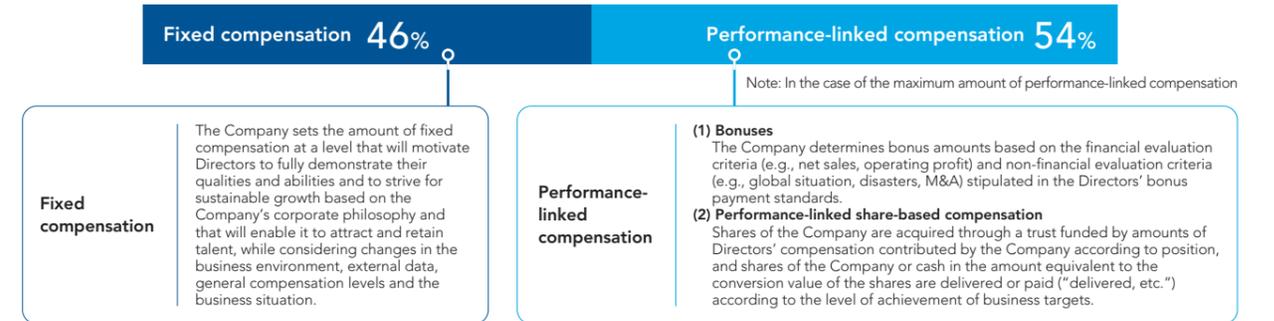
Corporate governance system schematic diagram



Officer Compensation

Compensation for Directors of the Company (excluding Outside Directors) consists of fixed compensation and performance-linked compensation. Our policy for setting the payout ratio of these two types of compensation is based on a level that will increase motivation to produce good business performance and enable the Company to attract and retain talent and that will be effective in increasing motivation to contribute to improving business performance and enhancing corporate value in the medium to long term, considering factors such as changes in the business environment, external data, general compensation levels and the business situation. Compensation of Outside Directors and Audit & Supervisory Board Members consists only of fixed compensation.

Composition of compensation for Directors



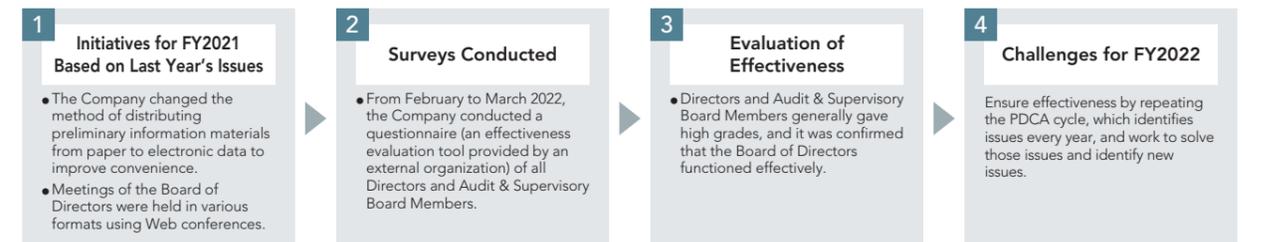
Total Officer Compensation

Category	No. of officers	Total amount of compensation, etc. (millions of yen)	Of which, fixed compensation (millions of yen)	Of which, bonuses (millions of yen)	Of which, performance-linked share-based compensation (millions of yen)
Directors [of whom, Outside Directors]	10 (3)	263 (28)	153 (28)	82 (—)	26 (—)
Audit & Supervisory Board Members [of whom, Outside Audit & Supervisory Board Members]	3 (2)	43 (24)	43 (24)	— (—)	— (—)
Total [of whom, Outside Officers]	13 (5)	306 (53)	196 (53)	82 (—)	26 (—)

Notes: 1. The above includes Directors who retired as of the closing of the 136th Ordinary General Meeting of Shareholders held on June 25, 2021.
2. Bonuses of 82 million yen for Directors (excluding Outside Directors) is the amount paid after the conclusion of the 137th Ordinary General Meeting of Shareholders held on June 28, 2022.
3. The performance-linked share-based compensation of 26 million yen for Directors (excluding Outside Directors and non-residents in Japan) is the amount posted as expenses for FY2021. Of the performance-linked share-based compensation for the three fiscal years corresponding to the Medium-Term Management Plan with FY2021 as the final business year, the total amount of stock benefit obligations calculated based on the number of shares expected to be delivered to the six Directors (excluding Outside Directors and non-residents in Japan) corresponding to the 135th and 136th fiscal years was 47 million yen. This amount was posted as expenses for FY2021.
4. Performance indicators relating to bonuses are consolidated net sales and operating profit related to the single-year plan and consolidated net sales, consolidated operating profit and ROE related to the Medium-Term Management Plan, for the purpose of increasing motivation to contribute to improving performance for a single fiscal year and in the medium to long term and increasing corporate value. In FY2021, the Company recorded consolidated net sales of 281,417 million yen, consolidated operating profit of 22,273 million yen and an ROE of 10.2%. Bonuses are calculated by multiplying the monthly basic compensation for each post by a coefficient calculated considering the degree of achievement of performance indicators and non-financial items.
5. Performance-linked share-based compensation is in the form of shares of the Company, and the conditions, etc., for allotment are as stated in “(1) Policies, etc., on determination of officer compensation, etc.” of the Notice of the 136th Ordinary General Meeting of Shareholders. Furthermore, the status of granting shares during FY2021 is stated in “II 1. (5) Status of shares delivered to the Company as compensation for the performance of the duties during the fiscal year under review.” Performance indicators for performance-linked share-based compensation are consolidated net sales, consolidated operating profit and ROE as outlined in the Medium-Term Management Plan to clarify the link between Directors’ compensation and the Company’s share value, and to increase motivation toward contributing to the improvement of medium- to long-term performance as well as to the enhancement of corporate value. In FY2021, the Company recorded consolidated net sales of 281,417 million yen, consolidated operating profit of 22,273 million yen and an ROE of 10.2%. Performance-linked share-based compensation is calculated according to the level of achievement of performance indicators, etc.
6. The 133rd Ordinary General Meeting of Shareholders held on June 27, 2018, passed a resolution to make the total amount of compensation, etc., for Directors (excluding Outside Directors) 370 million yen or less per year, to which eight Directors (excluding Outside Directors) were eligible as of the conclusion of said General Meeting of Shareholders. The Company has decided not to pay employee salaries to Directors who are also the Company’s employees.
7. Apart from No. 6 above, the 133rd Ordinary General Meeting of Shareholders held on June 27, 2018, passed a resolution to make the total amount of performance-linked share-based compensation for Directors (excluding Outside Directors and non-residents in Japan) 300 million yen or less for three fiscal years (100 million yen or less for one fiscal year when such compensation was established initially in 2018), to which eight Directors were eligible as of the conclusion of said General Meeting of Shareholders.
8. The 134th Ordinary General Meeting of Shareholders held on June 26, 2019, passed a resolution to make the total amount of compensation, etc., for Outside Directors 40 million yen or less per year, to which three Outside Directors were eligible as of the conclusion of said General Meeting of Shareholders. The Company has decided not to pay bonuses to Outside Directors.
9. The 122nd Ordinary General Meeting of Shareholders held on June 26, 2007, passed a resolution to make the total amount of compensation, etc., for Audit & Supervisory Board Members 80 million yen or less per year, to which four Audit & Supervisory Board Members were eligible as of the conclusion of said General Meeting of Shareholders. The Company has decided not to pay bonuses to Audit & Supervisory Board Members.
10. To increase the transparency of compensation for Directors, the Board of Directors has delegated the determination of the content of individual compensation, etc., for Directors for FY2021 to the Compensation Committee chaired by Outside Director Fumiaki Terasaka and with Outside Directors Toshiko Kuboki and Yoshio Osawa, and President and CEO Toshihiko Sato as members. Given that the determination of such content has been delegated to the Compensation Committee by resolution of the Board of Directors and that the content of the compensation, etc., is in line with the policy on the determination of the content of individual compensation, etc., for Directors resolved by the Board of Directors, the Compensation Committee has deemed that individual compensation, etc., for Directors for FY2021 conforms with said policy.

Evaluation of Effectiveness

CITIZEN aims to continuously improve its governance system and function effectively through analysis and evaluation of the effectiveness of its Board of Directors.



Skills Matrix

The Company has specified the knowledge, experience and skills needed to fulfill the roles and duties of the Board of Directors effectively for achieving business strategies and discloses the skills matrix as an indicator of the overall balance of knowledge, experience and skills, and diversity of its Board of Directors as a whole.

The expected roles that each Director will take on are as follows.

	Corporate Management/ Management Strategy	Sales/Marketing/ DX	R&D/ Technology	Global Business	HR Development/ Diversity	Finance/ Accounting	ESG/ Sustainability
President and CEO Toshihiko Sato	●				●		●
Managing Director Toshiyuki Furukawa	●	●				●	
Managing Director Yoshitaka Oji	●	●		●			
Director Keiichi Nakajima	●		●	●			
Director Shinji Shirai	●		●	●			
Director Yoshiaki Miyamoto	●				●		●
Outside Director Toshiko Kuboki				●	●		●
Outside Director Yoshio Osawa	●	●		●			
Outside Director Katsuhiko Yoshida	●	●			●		

Note: Up to three items are listed as the role expectations for each Director.

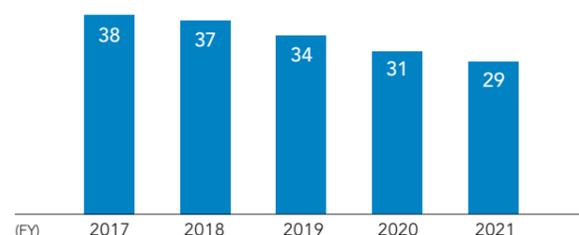
Group Risk Management

The Group is actively engaged in initiatives that lead to the enhancement of Group governance to centrally manage and respond promptly to risks throughout the Group. The Sustainability Committee—established in FY2020—is chaired by the President and CEO of the Company and has established subcommittees according to major risk themes, including ESG risks such as human rights and labor practices, environmental issues, and procurement and supply chain risks. The committee enables top-level management to ascertain and respond to material risks. In addition to financial risks, by placing committees and organizations for risks directly related to compliance, BCP (Business Continuity Planning), intellectual property, information and cybersecurity-related management infrastructure under the direct control of the Management Committee, we share information on important risks common to the Group and risks specific to each company throughout the Group. In addition to sharing risk management know-how among Group companies, this enables us to achieve consistent risk management throughout the Group. The Group will continue to make continuous improvements to enhance risk management throughout the Group.

Cross-Shareholding

The Company will hold shares when it is judged, comprehensively, to contribute to the maintenance and enhancement of the Group's medium- to long-term business relationships, the smooth operation of the Company's business operations and business development. Regarding verification of individual cross-shareholdings, the Board of Directors follows a basic policy of verifying the rationality and necessity of such cross-shareholdings every year considering factors such as the relationships between business partners and the Group and the possibility of mutual enhancement of corporate value and strives to reduce holdings of shares for which the significance of continuous retention has been diluted. In FY2021, we sold shares in two companies after verifying the significance of the holdings.

Number of cross-shareholdings



Message from an Outside Director

Advanced Precision Processing Technologies Developed through Watchmaking Will Drive the Growth of the CITIZEN Group

Q It has been one year since you were appointed as an Outside Director. What is your impression of the CITIZEN Group?

When many people hear the name Citizen Watch, they probably have the impression that it is a Japanese company that has been engaged in the manufacture of precision watches filled with craftsmanship for more than a hundred years. Before I became an Outside Director, I also had such an image. In reality, however, it is a global company that generates nearly 70% of its sales overseas and boasts the top share of mid-range watches, especially in the United States. The Machine Tools business—which is derived from the advanced precision processing technologies developed through watchmaking—has grown as a core business along with the Watches business, and there are many precision manufactured products that cannot be produced without CITIZEN's technologies. CITIZEN's factories are visited by some of the world's most famous companies, in industries completely different from the watch industry. As the world accelerates its drive toward carbon neutrality, CITIZEN has been developing, commercializing and selling solar-powered analog watches that can generate electricity using solar power and other artificial light for more than 40 years, showing that CITIZEN is a company that has been working to tackle environmental issues ahead of the rest of the world. Because CITIZEN has made a name for itself in the world with its watches, there is a strong impression of the Company being in the watch business, but I feel that the potential of the Machine Tools business; the Devices and Components business, which handles many precision parts; and the Electronic and Other Products business are not fully recognized around the world.

Q Please tell us about the business issues from a medium- to long-term perspective and what you expect from CITIZEN.

We, the Outside Directors, and Audit & Supervisory Members regularly check our internal controls (once every two months). CITIZEN has a corporate culture that respects manufacturing, and its quality control-related governance as a manufacturer is impeccable. On the other hand, while there are no internal control problems at this time, to further strengthen our checking function, it will also be necessary to further revitalize human resources and the organization through the introduction of strategic personnel rotation beyond the boundaries of business divisions. From the perspective of group governance, further digital transformation and the use of IT will also be key issues to enhance the management system of the CITIZEN Group, which has approximately 90 member companies. In the Watches business, even with the exclusion of the impact of the COVID-19 pandemic, there is a need for changes that adapt to the business environment due to the abandonment of watches among young people and the emergence of smart watches. However, we recognize that we have high-value-added technological capabilities as one of the world's leading manufacturers that can make watches through integrated production from parts to finished products, and that there is ample potential for growth in the global market by developing marketing and branding strategies based on these technologies. The CITIZEN Group's advanced precision processing technologies are expected to attract more attention not only in the watch industry but also in a wide range of industries such as the automobile industry, the space industry, and the medical and healthcare industries in the future. As an Outside Director, I will work to help the Group achieve sustainable growth as a corporate brand that is loved by citizens, working for citizens, while actively communicating the high growth potential of CITIZEN to the world.

Q What are your thoughts on your role as an Outside Director?

I recognize my primary role and function, as stipulated in the Companies Act, is to supervise and check the execution of business management, and I am always conscious of not losing my perspective with respect to minority shareholders. I also actively advise the Board of Directors and other parts of the Company so that the experience and know-how I have garnered so far, including management and investment decisions (including M&A), human resource development, risk management and crisis management, can be utilized in the management of CITIZEN. Outside Directors are also members of the Nomination and Compensation committees. In particular, the Nomination Committee—of which I am the chair—formulates succession plans, examines and develops candidates for the next generation of leaders, and provides a variety of advice on personnel rotation with a view to increasing diversity and enhancing human capital, such as increasing the number of female managers and developing global human resources.



Outside Director Yoshio Osawa

Management Team

Directors

Toshihiko Sato
President and CEO



Toshihiko Sato, with his record of achievements and experience including running the Devices and Components business and being responsible for watch manufacturing, continues to contribute to the advancement of the CITIZEN Group's businesses. Assumed current role in 2019.

Toshiyuki Furukawa
Managing Director
In charge of Corporate Planning Division, Accounting Department, Public & Investor Relations Department and IT Management Department



As General Manager of the Corporate Planning Division, Toshiyuki Furukawa has a record of achievements in formulating Group management strategy, and as Director has experience leading the Corporate Planning Division, Accounting Department and the Public & Investor Relations Department. He assumed his current post in 2022.

Yoshitaka Oji
Managing Director
Senior General Manager of Watch Business Division



After being involved in watch and clock sales at one of the Company's overseas subsidiaries, Yoshitaka Oji gained experience as General Manager of the Corporate Planning Division, promoting management strategy in the Watch business and product development of watches. He assumed his current post in 2022.

Keiichi Nakajima
Director



Keiichi Nakajima has mainly been involved in the Machine Tools business, driving the Machine Tools business as a whole and promoting business strategies as President of Citizen Machinery Co., Ltd. He assumed his current post in 2013.

Shinji Shirai
Director
Senior General Manager of Manufacturing Technology Center, Watch Business Division



After being involved in watch manufacturing at the Company's subsidiaries, Shinji Shirai gained experience managing watch manufacturing subsidiaries. He also has experience in operations involving watch manufacturing, technologies and product development. He assumed his current post in 2017.

Yoshiaki Miyamoto
Director
Group Risk Management, General Manager of General Affairs Division and in charge of Personnel Division, CSR Department and Environmental Management Department



After being involved in the start-up of new plants at Group overseas subsidiaries engaged in watch and clock manufacturing, Yoshiaki Miyamoto managed overseas subsidiaries responsible for watch and clock sales. He also has experience as Director with responsibility for Group risk management, general affairs and personnel. He assumed his current post in 2018.

Toshiko Kuboki
Independent
Outside Director



Career Summary

- 1987 Registered as an attorney-at-law
- 2002 Conciliation commissioner of Tokyo Family Court (present)
- 2009 Retirement Benefit Examination Committee member of Board of Audit of Japan (present)
- 2012 Visiting Professor of Graduate School of Law, Chuo University (present)
- 2013 Municipal Board of Education member of Chuo-ku, Tokyo
- 2015 Outside Director of QoI Co., Ltd. (Currently QoI Holdings Co., Ltd.) (present)
- 2015 Outside Auditor of Kyodo News (present)
- 2016 Outside Audit & Supervisory Board Member of the Company
- 2019 Outside Director of the Company (present)
- 2021 Chuo-ku Specially Appointed Civil Servant Remuneration, etc. Council Member (present)

Yoshio Osawa
Independent
Outside Director



Career Summary

- 2003 Corporate Officer and General Manager of Network Division of Sumitomo Corporation
- 2005 Executive Officer and General Manager of Network Division of Sumitomo Corporation
- 2007 Executive Officer and General Manager of Media Division of Sumitomo Corporation
- 2008 Managing Executive Officer and General Manager of Media, Network & Lifestyle Retail Business Unit of Sumitomo Corporation
- 2008 Representative Director and Managing Executive Officer of Sumitomo Corporation
- 2011 Representative Director and Senior Managing Executive Officer of Sumitomo Corporation
- 2013 Representative Director, President and Chief Operating Officer of SCSK Corporation
- 2015 Representative Director and President of SCSK Corporation
- 2016 Director and Chairman of the Board of SCSK Corporation
- 2017 Director of SCSK Corporation
- 2018 Outside Director of Canon Marketing Japan Inc. (present)
- 2019 Outside Director of the Company (present)

Katsuhiko Yoshida
Independent
Outside Director



Career Summary

- 2007 Executive Officer of Kao Corporation
- 2012 Managing Executive Officer of Kao Corporation
- 2014 Representative Director, Managing Executive Officer of Kao Corporation
- 2015 Representative Director, Senior Managing Executive Officer of Kao Corporation
- 2019 President of Japan Childcare Support Association (present)
- 2022 Outside Director of the Company (present)

Auditors

Noboru Akatsuka
Independent
Audit & Supervisory Board Member (Full-time)
Outside Audit & Supervisory Board Member



Career Summary

- 1981 Joined Dai-Ichi Kangyo Bank, Limited.
- 2005 General Manager of Asia Corporate Banking of Mizuho Corporate Bank, Ltd. (Currently Mizuho Bank, Ltd.)
- 2007 General Manager of Overseas Business Promotion Division of Mizuho Corporate Bank, Ltd.
- 2008 General Manager of Corporate Banking Division No. 18 of Mizuho Corporate Bank, Ltd.
- 2009 Executive Officer of Mizuho Corporate Bank, Ltd.
- 2011 Managing Executive Officer of Century Tokyo Leasing Corporation
- 2016 Counselor of Century Tokyo Leasing Corporation
- 2016 Chairman of Fujitsu Leasing Co., Ltd.
- 2018 Full-time Audit & Supervisory Board Member (Outside) of the Company (present)

Kazunori Yanagi
Audit & Supervisory Board Member (Full-time)



Career Summary

- 1986 Joined the Company
- 2007 General Manager of Accounting Department, Administration Division of Citizen Watch Co., Ltd.
- 2011 General Manager of Accounting Department of Citizen Watch Co., Ltd.
- 2012 Executive Officer of Citizen Jewelry Co., Ltd.
- 2014 Director of ROYAL TIME CITI CO., LTD.
- 2014 Representative Director and President of ROYAL TIME CITI CO., LTD.
- 2017 Director of ROYAL TIME CITI CO., LTD.
- 2019 Director of Citizen Watch Manufacturing Co., Ltd.
- 2022 Full-time Audit & Supervisory Board Member (Outside) of the Company (present)

Yaeko Ishida
Independent
Outside Audit & Supervisory Board Member



Career Summary

- 2000 Registered as an attorney-at-law
- 2007 Judicial Commissioner of Tokyo Summary Court
- 2016 Conciliation Commissioner of Tachikawa Branch of Tokyo Family Court (present)
- 2019 Outside Audit & Supervisory Board Member of the Company (present)

Note: Ms. Yaeko Ishida, an Outside Audit & Supervisory Board Member, uses the name Yaeko Kitadai in her profession as an attorney-at-law.

Independent Independent officer pursuant to Rule 436-2 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc.

Corporate Information

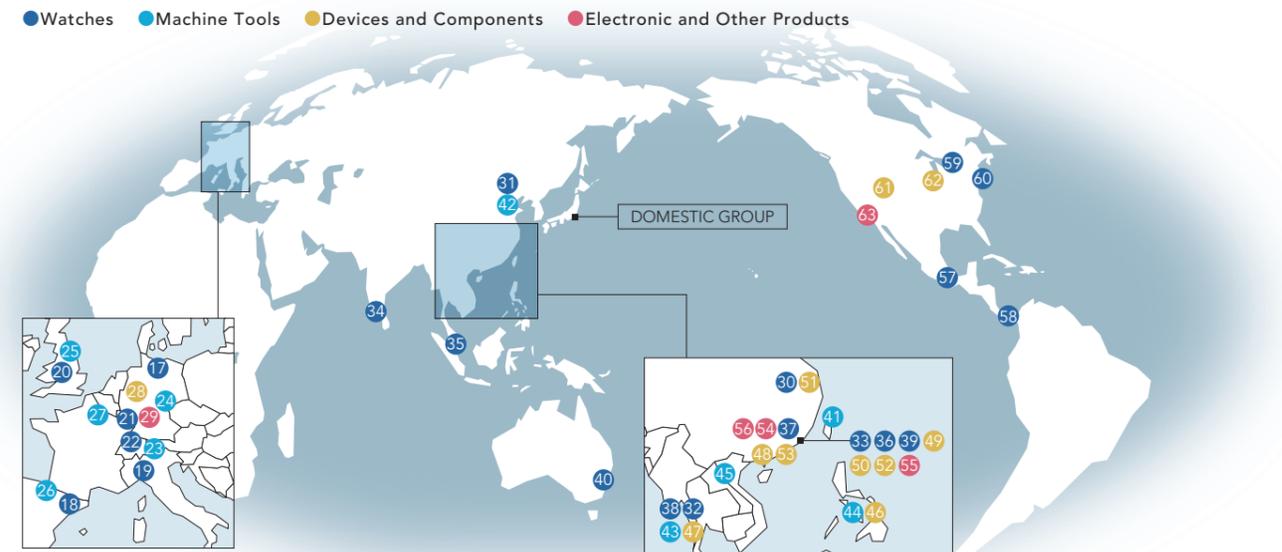
Company Overview (As of March 31, 2022)

Corporate name	Citizen Watch Co., Ltd.
Established	May 28, 1930
Headquarters	6-1-12, Tanashi-cho, Nishi-Tokyo-shi, Tokyo 188-8511, Japan
Representative	Toshihiko Sato, President and CEO
Capital	¥32,648 million
Employees	16,161 (consolidated)
Business description	Manufacturing and sale of watches and their components, and as a holding company, planning and implementation of Group management strategies, Group business auditing, development of Group technologies, intellectual property management and other administrative operations.

Stock Information (As of March 31, 2022)

Securities code	7762
Stock exchange listing	Tokyo Stock Exchange Prime Market (After April 4, 2022)
Total number of authorized shares	959,752,000
Total number of shares issued	314,353,809
Number of shareholders	46,256

Principal Places of Business and Group Companies

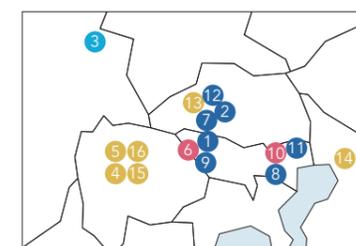


Works

- 1 Headquarters, Tokyo Works
- 2 Tokorozawa Works

DOMESTIC GROUP

- 3 CITIZEN MACHINERY CO., LTD.
- 4 CITIZEN FINEDEVICE CO., LTD.
- 5 CITIZEN ELECTRONICS CO., LTD.
- 6 CITIZEN SYSTEMS JAPAN CO., LTD.
- 7 CITIZEN WATCH MANUFACTURING CO., LTD.
- 8 CITIZEN RETAIL PLANNING CO., LTD.
- 9 CITIZEN T.I.C. CO., LTD.
- 10 TOKYO BIJUTSU CO., LTD.
- 11 CITIZEN CUSTOMER SERVICE CO., LTD.
- 12 CITIZEN LOGISTICS SERVICE CO., LTD.
- 13 CITIZEN MICRO CO., LTD.
- 14 CITIZEN CHIBA PRECISION CO., LTD.
- 15 FUJIMI CORPORATION
- 16 CITIZEN ELECTRONICS TIMEL CO., LTD.



OVERSEAS GROUP

EUROPE

- 17 CITIZEN WATCH EUROPE G.M.B.H.
- 18 CITIZEN WATCH IBÉRICA S.A.U.
- 19 CITIZEN WATCH ITALY S.P.A.
- 20 CITIZEN WATCH UNITED KINGDOM, LTD.
- 21 FREDERIQUE CONSTANT HOLDING S.A.
- 22 MANUFACTURE LA JOUX-PERRET S.A.
- 23 CITIZEN MACCHINE ITALIA S.R.L.
- 24 CITIZEN MACHINERY EUROPE G.M.B.H.
- 25 CITIZEN WATCH MANUFACTURING CO., LTD.
- 26 EGASCA, S.A.
- 27 HESTIKA FRANCE S.A.S.
- 28 C-E (DEUTSCHLAND) G.M.B.H.
- 29 CITIZEN SYSTEMS EUROPE G.M.B.H.

ASIA, OCEANIA

- 30 CITIZEN (SHANGHAI) TRADING CO., LTD.
- 31 CITIZEN WATCH (CHINA) CO., LTD.
- 32 CITIZEN WATCH MANUFACTURING (THAILAND) CO., LTD.
- 33 CITIZEN WATCHES (H.K.) LTD.
- 34 CITIZEN WATCHES (INDIA) PVT. LTD.
- 35 CITIZEN WATCHES (MALAYSIA) SDN. BHD.
- 36 CIVIS MANUFACTURING LTD.
- 37 GUANGZHOU MOST CROWN ELECTRONICS LTD.
- 38 ROYAL TIME CITI CO., LTD.
- 39 SUNCITI MANUFACTURERS LTD.
- 40 CITIZEN WATCHES AUSTRALIA PTY LTD.
- 41 CINCOM MIYANO TAIWAN CO., LTD.

- 42 CITIZEN (CHINA) PRECISION MACHINERY CO., LTD.
- 43 CITIZEN MACHINERY ASIA CO., LTD.
- 44 CITIZEN MACHINERY PHILIPPINES INC.
- 45 CITIZEN MACHINERY VIETNAM CO., LTD.
- 46 CITIZEN FINEDEVICE PHILIPPINES CORP.
- 47 CITIZEN SEIMITSU (THAILAND) CO., LTD.
- 48 MASTER CROWN ELECTRONICS (WUZHOU) LTD.
- 49 MOST CROWN INDUSTRIES LTD.
- 50 C-E (HONG KONG) LTD.
- 51 CITIZEN ELECTRONICS (CHINA) CO., LTD.
- 52 FIRSTCOME ELECTRONICS LTD.
- 53 JIANG XING ELECTRONICS LTD.
- 54 CITIZEN SYSTEMS (DONGGUAN) CO., LTD.
- 55 CITIZEN SYSTEMS (H.K.) LTD.
- 56 CITIZEN SYSTEMS (JIANGMEN) CO., LTD.

NORTH AMERICA, SOUTH AMERICA

- 57 CITIZEN DE MEXICO, S. DE R. L. DE C. V.
- 58 CITIZEN LATINAMERICA CORPORATION
- 59 CITIZEN WATCH CANADA, LTD.
- 60 CITIZEN WATCH COMPANY OF AMERICA, INC.
- 61 MIYOTA DEVELOPMENT CENTER OF AMERICA INC.
- 62 CECOL, INC.
- 63 CITIZEN SYSTEMS AMERICA CORP.

FINANCIAL DATA FY2021

Analysis of Operating Results

Fiscal Year End Operating Results

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022	Year-on-year change	%
Net sales	206,641	281,417	+74,775	+36.2%
Operating profit or loss	(9,551)	22,273	+31,824	-
Ordinary profit or loss	(4,143)	27,342	+31,485	-
Profit or loss attributable to owners of parent	(25,173)	22,140	+47,314	-

During the fiscal year under review, the Japanese economy faced an increasingly uncertain situation partly due to the spread of new variants and a shortage of parts, mainly semiconductors, offsetting signs of a gradual recovery from the impact of COVID-19. In North America and Europe, where concern had also been growing over a decline in consumer spending due to the resurgence of COVID-19 and an overall increase in consumer prices, the economy generally remained on a recovery path. In Asia, economic activity remained weak given economic weakness in response to uncertainties surrounding business conditions in the Chinese market, attributable to restrictions on economic activity in that country, and varying levels of recovery in other Asian regions, depending on the extent of infection control.

In this environment, the Citizen Group instituted a range of initiatives such as facilitating the growth of the Watch business and Machine Tools business, promoting sustainable management and strengthening compliance with quality, with a view to raising the level of traditional manufacturing and addressing the challenge of new value creation.

As a result, the consolidated financial results for the fiscal year under review showed an increase in sales and profits, with net sales of 281.4 billion yen (up 36.2% year on year) and operating profit of 22.2 billion yen (compared with an operating loss of 9.5 billion yen in the same period of the previous fiscal year). Ordinary profit and profit attributable to owners of parent also increased to 27.3 billion yen (compared with an ordinary loss of 4.1 billion yen in the same period of the previous fiscal year) and 22.1 billion yen (compared with a loss attributable to owners of parent of 25.1 billion yen in the same period of the previous fiscal year), respectively.

The Company has applied the Accounting Standards for Revenue Recognition (ASBJ Statement No. 29 issued on March 31, 2020) since the beginning of the first quarter of the consolidated fiscal year under review. For details, please see "Notes on Changes in accounting policies."

Analysis of Financial Position

1. Assets Outstanding at Fiscal Year End

As of the end of the consolidated fiscal year under review, total assets had increased by 29.1 billion yen to 394.9 billion yen. Total assets increased by 29.1 billion yen to 394.9 billion yen. Total assets increased by 29.1 billion yen to 394.9 billion yen. Noncurrent assets increased 3.4 billion yen due to increases of 3.9 billion yen in investment securities and 1.0 billion yen in buildings and structures, and a decrease of 1.6 billion yen in construction in progress. Total fixed assets increased by 3.4 billion yen, mainly due to a 1.6 billion yen decrease in construction in progress.

Liabilities increased by 3.4 billion yen, mainly due to increases of 2.7 billion yen in notes and accounts payable-trade and 4.8 billion yen in electronically recorded liabilities, and decreases of 4.8 billion yen in short-term loans payable and 1.6 billion yen in long-term loans payable. Total liabilities amounted to 156.2 billion yen, up 3.3 billion yen, mainly due to decreases of 4.8 billion yen in short-term loans payable and 3.8 billion yen in long-term loans payable.

Net assets amounted to 156.2 billion yen, up 3.3 billion yen, due to increases of 11.7 billion yen in foreign currency translation adjustments and 17.5 billion yen in retained earnings, respectively. Net assets amounted to 238.6 billion yen, up 25.8 billion yen, mainly due to a 7.1 billion yen repurchase of treasury stock, while foreign currency translation adjustments and retained earnings increased by 11.7 billion yen and 17.5 billion yen, respectively.

2. Cash Flows

The cash status of the Citizen Group includes an increase of 34.6 billion yen in cash flow from operating activities from the previous fiscal year due to an increase of 27.2 billion yen in income. This was attributable primarily to factors of increase such as 26.6 billion yen in profit before income taxes, 3.9 billion yen in trade payables, and 11.1 billion yen in depreciation, which more than offset factors such as an increase of 2 billion yen in trade receivables and 3.1 billion in income taxes paid.

Cash used in investing activities was 9.5 billion yen due to an increase of 1.9 billion yen in expenditure from the previous fiscal year. Contributing factors include 9.5 billion yen in purchase of property, plant and equipment and 2.1 billion yen in purchase of intangible assets, which more than offset factors such as proceeds from the sale of property, plant and equipment of 2.3 billion yen.

Cash used in financing activities was 19.9 billion yen due to an increase of 38.2 billion yen in expenditure from the previous fiscal year. This resulted chiefly from factors such as 8 billion yen in repayments of long-term borrowings, 7.1 billion yen in purchase of treasury shares, and 3.5 billion yen in dividends paid.

As a result, cash and cash equivalents increased 11.6 billion yen year on year to total 111.2 billion yen at the end of the fiscal year under review.

3. Fundamental Policy Regarding the Distribution of Profits and Dividends for the Fiscal Year Under Review and the Fiscal Year Ending March 2023

The Company considers the proportion of the total amount of dividends and share buybacks to profit attributable to owners of parent as the ratio of return to shareholders. Based on this concept, it established a basic policy of ensuring that the ratio of the return to shareholders is at least 60% on average for three years. It determines dividends by considering the balance between consolidated results-based dividend payments and stable dividend payments.

The year-end dividend for the fiscal year under review will be 9.00 yen per share. Consequently, the full-year dividend for the fiscal year under review will be 18.00 yen per share. In the next and subsequent fiscal years, the Group will emphasize the stable and continuous payment of dividends as its shareholder return policy in the Medium-term Management Plan 2024, and aim for a dividend payout ratio of approximately 50%. The Company expects that the full-year dividend for the next fiscal year will be 30.00 yen per share, comprehensively taking into consideration stable dividend payments and results trends, among other factors.

Business Risks

Of the matters regarding business and accounting situations, etc. described in the financial statements in security reports, the main risks that the operator recognizes as having the possibility of significantly impacting the financial condition, business performance, or cash flow condition of consolidated companies are as follows.

Forward-looking statements in this document are based on judgments of the Company's management as of the end of the fiscal year under review.

1. Risks in each of the Group's businesses

The Citizen Group's main business is to manufacture and sell watches, machine tools, electronic devices, and electronic products. The Group operates its business across the globe, and its customer base is extensive, including both individuals and various manufacturers. Accordingly, the Group's business performance is affected by a wide spectrum of factors. Factors that may affect the operating results include, but are not limited to:

Watches

Competition in the watch market is intensifying, not only from Japanese brands, but also from high-end Swiss brands, low-end Chinese manufacturers, and smartwatch manufacturers, along with alternative products such as smartphones with watch functions. With respect to movements, demand for analog quartz movements is trending downwards, primarily in the low-end range, reflecting an increase in demand for smartwatches. In addition, unit prices are falling due to an intensifying competitive environment resulting mainly from the rise of Chinese manufacturers. Consequently, there is a risk of a decline in the quantity and market share.

Moreover, if the adverse outcomes of the COVID-19 pandemic, such as restrictions on outings, suspension or reduced hours of store and restaurant operation, and stagnation of supply chains, are aggravated or prolonged, the Group's operating results may be affected even more severely due to a global decline in consumer confidence.

Machine Tools

The machine tools business is susceptible to the effects of decline in demand for capital investment caused by economic fluctuations, soaring natural resource and raw material prices, regulations or significant changes in laws and regulations in countries and regions in which the Group operates its business, fierce competition in the market, and stagnation, confusion, etc. of supply chains. There is a risk that the Group's business performance may be adversely affected by the above in the future.

Devices and Components

The devices and components business is characterized by the rapid pace of technological innovation, changes in customer requirements, and high rates of new product and service introduction. Accordingly, declining sales prices, etc. caused by obsolescence of existing products and services may significantly affect the Group's business performance. Precision machining components are susceptible to the trends of technical innovation among customers, including automotive and smart phone manufacturers. As for opto-devices, patent licensing agreements are concluded for manufacturing certain products. The Group's business performance could be affected should a cooperative relationship underpinning a patent agreement break down and access to the patent be lost.

Electronics and Other Products

The electronic and other products business is susceptible to stagnation in capital investment, customers' business activities, and personal spending associated with changing economic conditions and stricter laws and regulations relating product safety. The Group's operating results may be affected by those in the future. Moreover, with intense competition from electronics manufacturers in China and other countries in addition to domestic manufacturers, and rapid technological innovation, business results may also be impacted by factors such as declining sales prices, development delays, and confusion, etc. in supply

chains for semiconductors, etc.

2. Overseas sales ratio

Overseas sales account for a high percentage of the Group's overall product sales. As its products are sold worldwide, its operating results may be affected by economic and consumer trends in each area, as well as by political and socioeconomic factors.

(Millions of yen)

	(April 1, 2020 to March 31, 2021)		(April 1, 2021 to March 31, 2022)	
	Net sales	Composition rate (%)	Net sales	Composition rate (%)
Japan	70,108	33.9	74,418	26.4
Asia	65,659	31.8	87,681	31.2
U.S.	34,916	16.9	62,525	22.2
Europe	33,612	16.3	53,585	19.0
Other	2,345	1.1	3,207	1.1
Total overseas sales	136,533	66.1	206,998	73.6
Total	206,641	100.0	281,417	100.0

3. Risk of exchange fluctuations

As overseas sales account for a high percentage of the Group's product sales, as mentioned in 2 above, it hedges exchange fluctuation risk using foreign currency contracts, currency options, etc. Although the Group is expanding and strengthening overseas production, currency fluctuations may still affect the Group's operating results.

4. Ratio of production in China

China is one of Group's main production bases for its products. Accordingly, there is risk that its business performance be affected by factors in China, such as interruption in production due to problems, the enactment of new regulations, etc. that could affect production, or a sharp appreciation of the Chinese yuan.

5. Impairment losses

When market values of the assets held by the Group decrease significantly, or business profitability deteriorates, an impairment loss in noncurrent assets may be recorded by applying impairment accounting, which would affect the Group's businesses and financial position.

6. Patent and other intellectual property

As part of the Group's R&D and production activities, it uses a variety of technologies covered by intellectual property rights. These include intellectual property rights that are owned by the Citizen Group, and others for which we believe we have legitimately received licenses to use. Nevertheless, should a third party claim, based on grounds of which we are unaware, that its intellectual property rights have been violated, a dispute could arise that could affect the Group's business results.

For some products in particular, manufacturing is based on patent licensing agreements. If a cooperative relationship underpinning such an agreement were to break down, or access to the relevant patent were to be lost, it may affect our business results.

7. Risk related to natural disaster such as earthquakes

We have established a risk management system and conduct drills and other disaster simulation activities to ensure facilities safety and avoid any human casualties or damage to facilities, including

the Group's head office and plants, in the event of a fire, an earthquake or other natural disaster. In the event of a greater-than-expected earthquake or other such disaster, however, the Group's production activities and product supplies may be affected. There may also be a significant impact on its business performance and financial position due to reconstruction costs, for example.

8. Risks related to M&As and business alliances

The Group is committed to strengthening its business foundations through M&As, business alliances, etc. When undertaking such activities, it carries out comprehensive research into and examinations of the companies involved. Nevertheless, if unrealized liabilities are discovered or if projects do not progress as planned, among other things, it may materially affect the Group's operating results and financial position.

9. Risks related to borrowings

The Group's borrowings include syndicated loans and commitment line agreements with financial institutions. Any violation of financial restrictions under such agreements could result in demands for accelerated repayment of the relevant borrowings, which may affect the Group's financial position.

10. Risks related to information security

With the number of illegitimate accesses and external cyberattacks continuously growing globally, the Group has been working to strengthen information security. However, in the event of any damages to its information system function due to an external cyberattack or for other reasons, or the occurrence of incidents such as the suspension of services by service providers, the Group's business activities, business performance and financial conditions may be seriously affected.

The Group holds and manages, in a variety of forms, personal information obtained from customers and other sources, as well as confidential information related to the technologies, research and development, manufacture and sales of the Group and customers. The Group has been taking measures to protect such confidential information. Even so, such measures may not work effectively, if any matters that are not expected to occur initially arise. If, therefore, such information is disclosed without any authority, the Group may be asked for compensation for losses and damages, or face lawsuits, which may affect the business performances, financial conditions, reputation and credibility of the Group.

11. Other risks

The Group's operating results may be affected by a variety of factors in addition to the above, including changes in social infrastructure and market competition as a result of rapid advances in technology, changes in the Group's financial or managerial situation, trading restrictions and other regulations in major markets in Japan or overseas, international taxation risk including transfer pricing taxation system, or substantial fluctuations in stock or bond markets.

Consolidated Balance Sheets

Citizen Watch Co., Ltd. and Consolidated Subsidiaries
March 31, 2020 and 2021

	Millions of yen	
	As of March 31, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and deposits	¥ 101,816	¥ 110,901
Notes and accounts receivable - trade	44,102	*1 49,308
Electronically recorded monetary claims - operating	1,371	2,037
Merchandise and finished goods	52,018	50,979
Work in process	19,372	22,749
Raw materials and supplies	18,857	23,315
Consumption taxes refund receivable	2,129	2,661
Other	5,926	9,254
Allowance for doubtful accounts	(1,150)	(1,069)
Total current assets	244,444	270,139
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	*4*5 39,877	*4*5 40,893
Machinery, equipment and vehicles, net	*4 15,811	*4 16,567
Tools, furniture and fixtures, net	4,275	3,616
Land	10,649	10,371
Leased assets, net	1,249	975
Construction in progress	4,085	2,437
Total property, plant and equipment	*2 75,948	*2 74,862
Intangible assets		
Software	3,590	3,879
Leased assets	2	1
Other	1,059	954
Total intangible assets	4,652	4,834
Investments and other assets		
Investment securities	*3 33,341	*3 37,275
Long-term loans receivable	251	184
Deferred tax assets	5,293	5,894
Other	2,185	2,151
Allowance for doubtful accounts	(306)	(236)
Allowance for investment loss	—	(144)
Total investments and other assets	40,765	45,125
Total non-current assets	121,366	124,823
Total assets	¥ 365,811	¥ 394,962

Consolidated Statements of Income

Citizen Watch Co., Ltd. and Consolidated Subsidiaries
March 31, 2020 and 2021

	Millions of yen	
	As of March 31, 2021	As of March 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	¥ 15,576	¥ 18,354
Electronically recorded obligations - operating	9,041	13,910
Notes payable - facilities	241	25
Electronically recorded obligations - non-operating	395	598
Short-term borrowings	*6 9,648	*6 4,773
Income taxes payable	1,381	2,826
Accrued expenses	9,451	10,604
Asset retirement obligations	—	26
Provision for bonuses	4,778	5,821
Provision for bonuses for directors (and other officers)	157	279
Provision for product warranties	984	1,181
Provision for environmental measures	2	1
Provision for loss on reorganization	715	362
Other	7,369	10,571
Total current liabilities	59,745	69,338
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term borrowings	*6 55,212	*6 51,382
Provision for loss on guarantees	—	23
Deferred tax liabilities	2,281	2,772
Provision for loss on reorganization	103	74
Retirement benefit liability	22,590	20,281
Asset retirement obligations	75	49
Other	2,937	2,369
Total non-current liabilities	93,201	86,951
Total liabilities	152,946	156,289
Net assets		
Shareholders' equity		
Share capital	32,648	32,648
Capital surplus	33,740	33,740
Retained earnings	128,393	145,912
Treasury shares	(1,069)	(8,225)
Total shareholders' equity	193,713	204,076
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,503	8,977
Foreign currency translation adjustment	4,871	16,646
Remeasurements of defined benefit plans	(1,100)	(394)
Total accumulated other comprehensive income	10,273	25,228
Non-controlling interests	8,878	9,367
Total net assets	212,864	238,673
Total liabilities and net assets	¥ 365,811	¥ 394,962

	Millions of yen	
	As of March 31, 2021	As of March 31, 2022
Net sales	¥ 206,641	¥ *1 281,417
Cost of sales	*12 140,742	*12 174,578
Gross profit	65,898	106,839
Selling, general and administrative expenses	*2 *3 75,450	*2 *3 84,565
Operating profit (loss)	(9,551)	22,273
Non-operating income		
Interest income	256	276
Dividend income	1,129	1,369
Rental income	166	161
Share of profit of entities accounted for using equity method	440	813
Foreign exchange gains	854	2,192
Subsidy income	*4 3,357	*4 484
Other	297	505
Total non-operating income	6,501	5,804
Non-operating expenses		
Commission for syndicated loans	215	71
Interest expenses	415	294
Loss on sale of notes receivable - trade	16	17
Depreciation of assets for rent	51	8
Provision of allowance for doubtful accounts	125	—
Other	268	343
Total non-operating expenses	1,093	735
Ordinary profit (loss)	(4,143)	27,342
Extraordinary income		
Gain on sale of investment securities	1,452	94
Gain on sale of non-current assets	*5 819	*5 1,033
Gain on sale of businesses	350	—
Other	141	93
Total extraordinary income	2,762	1,221
Extraordinary losses		
Loss on sale of non-current assets	*7 19	*7 38
Loss on retirement of non-current assets	*6 241	*6 79
Impairment losses	*8 2,857	*8 742
Loss on valuation of investment securities	1,220	—
Loss on valuation of inventories	—	*9 346
Reorganization cost	*10 238	*10 209
Extra retirement payments	*11 4,374	*11 15
Loss on COVID	*13 3,034	*13 166
Other	394	272
Total extraordinary losses	12,381	1,869
Profit before income taxes	(13,761)	26,694
Income taxes - current	920	5,342
Income taxes - deferred	10,756	(1,075)
Total income taxes	11,677	4,266
Profit (loss)	(25,439)	22,427
Profit (loss) attributable to non-controlling interests	(265)	286
Profit (loss) attributable to owners of parent	¥ (25,173)	¥ 22,140

Consolidated Statements of Comprehensive Income

Citizen Watch Co., Ltd. and Consolidated Subsidiaries
March 31, 2020 and 2021

	Millions of yen	
	Year ended March 31, 2021	Year ended March 31, 2022
Profit (loss)	¥ (25,439)	¥ 22,427
Other comprehensive income		
Valuation difference on available-for-sale securities	2,924	2,474
Foreign currency translation adjustment	6,000	11,578
Remeasurements of defined benefit plans, net of tax	(174)	692
for using equity method	66	438
Total other comprehensive income	* 8,817	* 15,182
Comprehensive income	(16,622)	37,610
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(16,460)	37,096
Comprehensive income attributable to non-controlling interests	¥ (161)	¥ 513

Consolidated Statements of Changes in Equity

Financial year ended March 31, 2021

Millions of yen

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	32,648	33,730	154,855	(1,069)	220,165
Cumulative effects of changes in accounting policies					-
Restated balance	32,648	33,730	154,855	(1,069)	220,165
Changes during period					
Purchase of shares of consolidated subsidiaries		9			9
Increase by merger					
Change in scope of consolidation			(506)		(506)
Dividends of surplus			(782)		(782)
Profit (loss) attributable to owners of parent			(25,173)		(25,173)
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares				1	1
Transfer of loss on disposal of treasury shares					-
Transfer from retained earnings to capital surplus					-
Net changes in items other than shareholders' equity					
Total changes during period	-	9	(26,462)	0	(26,451)
Balance at end of period	32,648	33,740	128,393	(1,069)	193,713

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	3,578	(1,095)	(921)	1,560	9,066	230,791
Cumulative effects of changes in accounting policies						-
Restated balance	3,578	(1,095)	(921)	1,560	9,066	230,791
Changes during period						
Purchase of shares of consolidated subsidiaries						9
Change in scope of consolidation						(506)
Dividends of surplus						(782)
Profit (loss) attributable to owners of parent						(25,173)
Purchase of treasury shares						(0)
Disposal of treasury shares						1
Transfer of loss on disposal of treasury shares						-
Net changes in items other than shareholders' equity	2,924	5,966	(179)	8,712	(187)	8,524
Total changes during period	2,924	5,966	(179)	8,712	(187)	(17,927)
Balance at end of period	6,503	4,871	(1,100)	10,273	8,878	212,864

Financial year ended March 31, 2022

Millions of yen

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	32,648	33,740	128,393	(1,069)	193,713
Cumulative effects of changes in accounting policies			(1,068)		(1,068)
Restated balance	32,648	33,740	127,324	(1,069)	192,644
Changes during period					
Purchase of shares of consolidated subsidiaries					-
Increase by merger			46		46
Dividends of surplus			(3,599)		(3,599)
Profit (loss) attributable to owners of parent			22,140		22,140
Purchase of treasury shares				(7,157)	(7,157)
Disposal of treasury shares		(0)		0	0
Transfer of loss on disposal of treasury shares		0	(0)		
Net changes in items other than shareholders' equity					
Total changes during period	-	-	18,588	(7,156)	11,431
Balance at end of period	32,648	33,740	145,912	(8,225)	204,076

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	6,503	4,871	(1,100)	10,273	8,878	212,864
Cumulative effects of changes in accounting policies						(1,068)
Restated balance	6,503	4,871	(1,100)	10,273	8,878	211,796
Changes during period						
Purchase of shares of consolidated subsidiaries						-
Increase by merger						46
Dividends of surplus						(3,599)
Profit (loss) attributable to owners of parent						22,140
Purchase of treasury shares						(7,157)
Disposal of treasury shares						0
Transfer of loss on disposal of treasury shares						-
Net changes in items other than shareholders' equity	2,474	11,774	706	14,955	489	15,444
Total changes during period	2,474	11,774	706	14,955	489	26,876
Balance at end of period	8,977	16,646	(394)	25,228	9,367	238,673

Consolidated Statements of Cash Flows

Citizen Watch Co., Ltd. and Consolidated Subsidiaries
March 31, 2020 and 2021

Millions of yen

	As of March 31, 2021	As of March 31, 2022
Cash flows from operating activities		
Profit (loss) before income taxes	¥ (13,761)	¥ 26,694
Depreciation	11,557	11,191
Increase (decrease) in provision for loss on reorganization	(1,849)	(387)
Increase (decrease) in allowance for doubtful accounts	132	(251)
Increase (decrease) in other provisions	(441)	1,427
Increase (decrease) in retirement benefit liability	(1,683)	(1,790)
Interest and dividend income	(1,386)	(1,645)
Subsidy income	(3,357)	(484)
Interest expenses	415	294
Loss (gain) on valuation of investment securities	1,220	-
Loss (gain) on sale of investment securities	(1,452)	(94)
Loss (gain) on sale of non-current assets	(799)	(995)
Loss on retirement of non-current assets	241	79
Impairment losses	2,857	742
Decrease (increase) in trade receivables	1,402	(2,025)
Decrease (increase) in inventories	13,737	(1,800)
Increase (decrease) in trade payables	(3,559)	3,920
Other, net	(201)	1,121
Subtotal	3,072	35,996
Interest and dividends received	1,380	1,633
Interest paid	(421)	(300)
Income taxes refund (paid)	212	(3,120)
Subsidies received	3,245	484
Net cash provided by (used in) operating activities	7,489	34,693
Cash flows from investing activities		
Purchase of investment securities	(0)	(1)
Proceeds from sale of investment securities	3,163	165
Purchase of property, plant and equipment	(9,240)	(9,566)
Proceeds from sale of property, plant and equipment	1,534	2,338
Purchase of intangible assets	(2,892)	(2,117)
Loan advances	(153)	(23)
Proceeds from collection of loans receivable	103	309
Other, net	(141)	(656)
Net cash provided by (used in) investing activities	(7,627)	(9,550)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(1,785)	(737)
Proceeds from long-term borrowings	35,180	-
Repayments of long-term borrowings	(13,738)	(8,048)
Dividends paid	(782)	(3,599)
Dividends paid to non-controlling interests	(34)	(55)
Purchase of treasury shares	(0)	(7,157)
Proceeds from sale of treasury shares	1	0
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(0)	-
Other, net	(503)	(359)
Net cash provided by (used in) financing activities	18,336	(19,956)
Effect of exchange rate change on cash and cash equivalents	2,843	6,430
Net increase (decrease) in cash and cash equivalents	21,041	11,616
Cash and cash equivalents at beginning of period	77,996	99,561
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	522	59
Cash and cash equivalents at end of period	¥ 99,561	¥ 111,237

Notes

(Significant Matters that Serve as the Basis for the Preparation of Consolidated Financial Statements)

1. Scope of consolidation

- (1) Number of consolidated subsidiaries: 76
Deconsolidation: 4
During the consolidated fiscal year under review, the Company implemented deconsolidation of Bulova Swiss S.A., Citizen Electronics Funehiki Japan Co., Ltd., and Citizen Plaza Co., Ltd. due to corporate liquidation, and BWI de Mexico S.R.L. due to absorption-type merger with Citizen De Mexico, S. de R.L. de C.V., the Company's consolidated subsidiary.
- (2) Non-consolidated subsidiaries :11
Major non-consolidated subsidiaries
CITIZEN CUSTOMER SERVICE CO., LTD.
(Reason for exclusion from scope of consolidation)
They were excluded from the scope of consolidation because the sum of total assets, net sales, current term net profit or loss (amount corresponding to equity), retained earnings (amount corresponding to equity), etc. of each of the deconsolidated subsidiaries is negligible compared to total assets, net sales, current term net profit or loss, retained earnings, etc. in the consolidated financial statements and does not have significant impact on the said statements as a whole.

2. Matters related to the application of the equity method

- (1) Number of affiliates accounted for using equity method: 2
Marubeni Citizen-Cincom Inc., First Cainta Resources Corporation
- (2) Non-consolidated subsidiaries (Citizen Customer Service Co., Ltd., etc.) and affiliates (VELDT Inc., etc.) that are not accounted for using the equity method are excluded from the scope of application of equity method because they have minimal impact on the consolidated financial statements in light of their respective current term net profit or loss (amount corresponding to equity), retained earnings (amount corresponding to equity), etc. and because they are not material as a whole.

3. Fiscal years of consolidated subsidiaries

- (1) Consolidated subsidiaries whose account closing dates are different from the consolidated account settlement date are as follows.
December 31 closing dates: 55 companies
- (2) The Company makes necessary adjustments for formulating consolidated financial statements on the account closing date, by preparing financial statements that are the basis for consolidated financial statements.

4. Matters related to accounting policies

Accounting policies adopted by consolidated subsidiaries conform to the standards used by the Company, in principle, and there are no differences to be specified. Major accounting policies adopted by the Company and its consolidated subsidiaries are as follows.

- (1) Valuation standards and methods for important assets
- (i) Securities
Other securities
Securities other than shares, etc. without market prices
These securities are stated using market value method.
(Unrealized gains and losses are reported as a component of net assets, and cost of sales is computed primarily by the moving-average method.)
Shares, etc. without market prices
These securities are stated using moving average cost method.
- (ii) Derivatives
These securities are stated using market value method.
- (iii) Inventories
Inventories are stated at cost mainly using the periodic average method (The amount stated in the balance sheet is calculated using the book value write-down method based on reduction in profitability.)

- (2) Depreciation method of important depreciable assets
- (i) Property, plant and equipment (excluding lease assets)
The straight-line method is applied.
The principal useful lives of property, plant and equipment are as follows:
Buildings and structures: 2 to 60 years
Machinery, equipment and vehicles: 2 to 10 years
- (ii) Intangible assets (excluding lease assets)
The straight-line method is applied.
- (iii) Leased assets
For depreciation of leased assets for finance lease transactions other than those involving ownership transfer, the useful life is based on the duration of the lease period, and the straight-line method is applied with an assumed residual value of zero.
- (3) Accounting method for significant deferred assets.
Bond issuance costs
They are collectively amortized in the fiscal year in which they are incurred.
- (4) Accounting for significant allowances and reserves
- (i) Allowance for doubtful accounts
To reserve for losses on doubtful accounts such as trade receivables and loans, the Company and its consolidated subsidiaries in Japan provide an allowance, based on historical write-off rates for ordinary receivables and estimated amounts of irrecoverable debt for specified receivables such as debt with a possibility of default which takes into account the recoverability of individual debt. Moreover, estimated amounts of allowance are recorded for overseas consolidated subsidiaries, considering the recoverability of individual receivables.
- (ii) Allowance for investment loss
To reserve for a loss from significant declines in the value of shares, etc. in non-consolidated subsidiaries (excluding those to which impairment accounting is applied), an allowance is provided considering the carrying amount, etc. of the shares, etc. as of the end of the consolidated fiscal year under review.
- (iii) Provision for bonuses
To provide for the payment of bonuses to employees of the Company and certain of its consolidated subsidiaries, allowance for bonuses is provided based on estimated future payments.
- (iv) Provision for bonuses for directors (and other officers)
To provide for the payment of bonuses to officers of the Company and certain of its consolidated subsidiaries, allowance for bonuses is provided based on estimated future payments.
- (v) Provision for product warranties
A portion of sales is provided for costs for after-sale services, etc. of products at certain consolidated subsidiaries.
- (vi) Provision for loss on business reorganization and liquidation
To reserve for expenses and losses from business restructuring, an estimated required amount is recorded.
- (vii) Provision for environmental measures
To provide for expenditures for future environmental measures, a reasonably estimated amount is recorded.
- (5) Accounting method for retirement benefits
- (i) Method for attributing expected retirement benefits to periods of service
In calculating projected benefits obligations, the periodic allocation of projected retirement benefits up to the end of current period is based mainly on the benefit formula basis.
- (ii) Treatment of unrecognized actuarial differences and past service costs
Past service cost is treated as an expense over a fixed number of years (using the declining balanced method on the basis of 5 years, in principle) within the average remaining years of service of employees as of the year in which the past service costs occur.
Actuarial differences are to be charged to expenses from the fiscal year following the year in which the past service costs occur, over a fixed number of years (using the declining balanced method on the basis of 5 years, in principle) within the average remaining years of service of employees as of each fiscal year in which the past service costs occur.

- (iii) Adoption of the simplified method by companies that are small in size
Some consolidated subsidiaries adopt, for the purpose of calculating retirement benefit liability and retirement benefit expenses, a simplified method involving the recognition of retirement benefit obligations as the amount of retirement benefit payable at fiscal year-end due to voluntary termination.
- (6) Accounting standards for income and expenses
The Citizen Group's main business is to manufacture and sell watches, machine tools, electronic devices, and electronic products.
The Company believes that its performance obligation regarding the recognition of revenues from sale of goods is satisfied when the control over the goods is transferred to customers and revenues are recognized at the time of the transfer.
Transaction prices are calculated by deducting variable consideration, including future sales returns and other rebates, from the consideration the customer promises in a contract. Variable consideration is estimated based on the past track record and information available as of the end of the consolidated fiscal year under review, and is revaluated at every fiscal year end.
In the watches segment, membership-based inspection services are provided to customers. In the said services, performance obligations related to the sale of products and performance obligations related to inspection services are identified separately and revenue is recognized when each performance obligation is satisfied. As considerations regarding these performance obligations are generally paid within one year from the time they are satisfied, no significant financing component is involved.
- (7) Standard for translation of significant foreign currency denominated assets or liabilities into yen
Foreign currency monetary assets and liabilities are translated into yen at the year-end spot exchange rate, and translation adjustments are accounted for as profit or loss. For overseas subsidiaries, etc., assets and liabilities are converted into yen based on the spot exchange rate on consolidated account settlement day, and revenue and expenses are converted into yen by using the average exchange rate during the fiscal year, while the difference arising from the conversion is shown in the net assets section as foreign currency translation adjustment and non-controlling interests.
- (8) Scope of funds in the consolidated statement of cash flows
Cash and cash equivalents are composed of cash on hand, deposits that can be withdrawn at any time and short-term investments that are readily convertible into cash and face only slight risks of fluctuation in value, with redemption due dates arriving within three months from the acquisition date.
- (9) Other significant matters for preparing consolidated financial statements
(Application of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System)
In relation to the transition to the group tax sharing system, which is newly established under the Act for Partial Revision of the Income Tax Act and Other Acts (Act No. 8 of 2020) and the items regarding which the non-consolidated taxation system was reviewed in line with the transition to the group tax sharing system, the Company and part of its consolidated domestic subsidiaries do not implement the provisions of Paragraph 44 of the Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) but comply with the provisions of the tax regulations prior to the revision with respect to amounts of deferred tax assets and deferred tax liabilities, in accordance with the treatment stipulated in Paragraph 3 of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (ASBJ PITF No.39, March 31, 2020).
From the beginning of the next fiscal year, the Company will apply "Handling of Accounting and Disclosure When Applying the Group Tax Sharing System" (Practical Issues Task Force No. 42, August 12, 2021), which specifies the handling of accounting

treatment and disclose of income taxes and local income taxes when the group tax sharing system is applied.

(Significant Accounting Estimates)

1. Recoverability of deferred tax assets

- (1) Amounts posted to the consolidated financial statements for the fiscal year under review
The amount of deferred tax assets is the same as that described in 1 under Notes to Consolidated Financial Statements (Tax effect accounting).
- (2) Information about important accounting estimates related to items identified
In the calculation of deferred tax assets, the Group makes a careful decision in deducting valuation allowance from deferred tax assets based on business plans of domestic consolidated companies, considering feasibility of future taxable income and collectability.

2. Impairment loss on non-current assets

- (1) Amounts posted to the consolidated financial statements for the fiscal year under review
The amount of impairment loss on non-current assets is the same as that described in Notes (Consolidated Statement of Income) 8. Impairment losses.
- (2) Information about important accounting estimates related to items identified
Regarding assets or assets group that are determined to show indications of having suffered impairment losses based on market prices of non-current assets and gains/losses stemming from business activities that use the said assets or assets group, if the carrying amount of the said asset or asset group exceeds the sum of the undiscounted future cash flows, the Group reduces the book value to their recoverable value and recognizes the reduction as impairment loss. The recoverable value is defined as the higher of net selling value and value in use, and value in use is calculated as present discounted value of expected future cash flows. Expected future cash flows are calculated based on business plans approved by the board of directors, etc., markets outlook, etc.

Accounting estimates regarding the recoverability of deferred tax assets and impairment losses of non-current assets are made based on the assumption that the world economy in the next consolidated fiscal year will generally continue recovering, given the removal of restrictions on economic activities associated with the COVID-19 pandemic, despite uncertainties such as surges in raw material prices and delays in parts procurement. This assumption has inevitable uncertainty and may affect the consolidated financial statements of the next fiscal year, being susceptible to protracted and exacerbated impact from the pandemic.

(Change in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition and other standards)
The Company has decided to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter the "Revenue Recognition Accounting Standard"), etc. from the beginning of the fiscal year under review and recognize revenue from goods or services which the Company promised to provide at an amount expected to be received in exchange for the goods or services at the time when control over the promised goods or services has been transferred to a customer. Major changes in the application of Revenue Recognition Accounting Standard, etc. are shown below.

1. Recognition of revenue related to membership-based inspection services

Revenue related to membership-based inspection services in the watches segment was not recognized in the past, but the Company has changed this to the method of identifying performance obligations related to the sale of products and performance obligations related to the inspection services and recognizing revenue when each performance obligation is satisfied.

2. Variable considerations

Variable considerations such as rebates in product sales were in the past deducted from net sales when the amount was fixed, but the Company has changed this to the method of estimating the amount of the variable portion of the consideration for a transaction and including in the transaction price only the portion that is highly unlikely to cause a significant reduction in the recognized revenue.

3. Considerations to be paid to customers

Considerations to be paid to customers, such as sales commissions, were accounted for as selling, general and administrative expenses in the past, but the Company has changed it to the method of reducing them from transaction prices.

4. Sales with return rights

For transactions of product sales that could be returned, the Company has changed to the method of not recognizing revenue at the time of sales in accordance with the provisions regarding variable considerations.

The application of the Revenue Recognition Accounting Standard follows the provisional treatment stipulated in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative effects in the case of retroactively applying the new accounting policy to before the beginning of the fiscal year under review are adjusted in retained earnings at the beginning of the fiscal year under review, and the new accounting policy is applied from this initial balance. However, applying the method stipulated in Paragraph 86 of the Revenue Recognition Accounting Standard, the Company does not retroactively apply the new accounting policy to the contracts almost all of whose revenue was recognized in compliance with the conventional method before the beginning of the fiscal year under review.

In addition, applying the method prescribed in the note (1) for Paragraph 86 of the Revenue Recognition Accounting Standard, the Company accounts for contract changes made prior to the beginning of the fiscal year under review based on the contract terms after reflecting all contract changes, and added or subtracted their cumulative effect to or from retained earnings at the beginning of the fiscal year under review.

As a result, compared to before the application of the Accounting Standard for Revenue Recognition and other standards, net sales decreased by 270 million yen, the cost of sales increased by 141 million yen, selling, general and administrative expenses dropped by 406 million yen, while operating profit, ordinary profit and profit attributable to owners of parent each decreased by 5 million yen, in the consolidated fiscal year under review.

The initial balance of retained earnings in the consolidated statement of changes in equity decreased by 1,068 million yen due to the application of the cumulative effect to net assets as of the beginning of the fiscal year under review.

According to the transitional measures prescribed in Paragraph 89-3 of the Revenue Recognition Accounting Standard, information that breaks down revenue from contracts with customers for the previous fiscal year is not presented.

The effect on per-share information is stated in relevant sections.

(Application of Accounting Standard for Fair Value Measurement and other standards)

The Group began applying the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), etc. from the beginning of the fiscal year under review. Accordingly, the Company will apply the new accounting policies prescribed in the Accounting Standard for Fair Value Measurement, etc. in the future

in accordance with transitional measures stipulated in paragraph 19 of the standard and paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). The application of the accounting standard has no impact on the consolidated financial statements.

Moreover, the Company decided to add notes on matters regarding the breakdown, etc. of financial instruments according to the level of their market values in Notes on Financial Instruments. In the note on a breakdown of financial instruments, a breakdown of financial instruments in the previous fiscal year is not included in accordance with the transitional procedures set out in Paragraph 7-4 of the Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, July 4, 2019).

(Additional Information)

(Performance-linked stock remuneration plan)

(1) Transaction overview

The Company has introduced a performance-linked compensation system (the "System") for its Directors (excluding Outside Directors and non-residents in Japan; hereinafter referred to as "Directors") for the purpose of further clarifying the link between the compensation to the Directors and value of the Company's stock and giving them greater motivation to make contributions to improve business performance and increase enterprise value over the medium and long term. The System employs a framework called Board Incentive Plan trust (hereinafter "the BIP Trust"). The BIP Trust is similar to the performance-based stock compensation (Performance Share) plan and the restricted stock compensation (Restricted Stock) plan in the United States. Under the BIP Trust, shares of the Company's stock are issued, and money obtained by realizing the said shares is delivered to Directors according to their positions and degree of contribution to achievement of the Company's performance targets.

(2) The Company's shares remaining in the Trust

The Company's shares remaining in the Trust are posted as treasury shares in the net assets section. The book value and number of such treasury shares were 242 million yen and 374,652 shares, respectively, at the end of the previous consolidated fiscal year, and 241 million yen and 373,362 shares, respectively, at the end of the consolidated fiscal year under review.

(Consolidated Statement of Income)

*1. Of notes receivable-trade and accounts receivable-trade, the amounts of those receivables arising from contracts with customers are as follows.

	(Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Notes receivable	843	
Accounts receivable	48,465	

*2. The accumulated depreciation of property, plant and equipment is as follows.

	(Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Accumulated depreciation	221,719	227,669

*3. Items provided to non-consolidate subsidiaries and affiliates are as follows:

	(Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Investment securities (shares)	4,818	5,593

*4. The accumulated amount of tax purpose reduction entry of property, plant and equipment due to the acceptance of national subsidies, etc. is as follows.

	(Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Buildings and structures	249	243
Machinery, equipment and vehicles	20	14

*5. Assets pledged as collateral and secured liabilities
Assets pledged as collateral are as follows:

	(Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Buildings and structures	1,118	1,208

*6. The Group has signed overdraft agreements and commitment line agreements with five correspondent banks in order to efficiently procure operating funds. The unused balance of borrowings under these agreements at the consolidated fiscal year-end is as follows.

	(Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Total of overdraft limit and loan commitment	59,376	59,348
Outstanding borrowing balance	-	-
Difference	59,376	59,348

(Notes to Consolidated Statement of Income)

*1. Revenue from contracts with customers
Net sales are not broken down into revenue from contracts with customers and other revenue. The amount of revenue from contracts with customers is stated in Notes to the Consolidated Financial Statements (Revenue Recognition) 1. Information on the breakdown of revenue from contracts with customers.

*2. Major components of selling, general and administrative expenses and their amounts are as follows.

	(Millions of yen)	
	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Depreciation	4,554	4,257
Provision of allowance for doubtful accounts	(126)	(33)
Provision for bonuses	1,778	2,414
Provision for bonuses for directors (and other officers)	78	278
Retirement benefit expenses	1,427	1,646
Personnel expenses	26,476	29,158
Advertising expenses	12,168	15,360
Provision for product warranties	2	87
Research and development expenses	5,576	5,542

*3. The total amount of research and development expenses included in general and administrative expenses is as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Research and development expenses	5,576	5,542

*4. The content of subsidy income is as follows.

	(Millions of yen)	
	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Subsidy income	3,357	484

Subsidy income in the previous consolidated fiscal year mainly consisted of subsidies for employment adjustment associated with the impact of the spread of the COVID-19 infection. Subsidy income in the consolidated fiscal year under review mainly consisted of subsidies for employment adjustment associated with the impact of the spread of the COVID-19 infection.

*5. Gain on sale of non-current assets mainly consisted of the following.

	(Millions of yen)	
	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Machinery, equipment and vehicles	54	32
Land	737	814

*6. Loss on retirement of non-current assets mainly consisted of the following.

	(Millions of yen)	
	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Buildings and structures	88	6
Machinery, equipment and vehicles	42	27
Tools, furniture and fixtures	56	17

*7. Loss on sale of non-current assets mainly consisted of the following.

	(Millions of yen)	
	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Buildings and structures	0	25
Machinery, equipment and vehicles	18	8
Tools, furniture and fixtures	0	2

*8. Impairment losses
The Group posted an impairment loss in the asset groups below. Fiscal year ended March 31, 2021

Location	Use	Category
Japan	Furniture and fixtures, software, idle facilities, etc.	Tools, furniture and fixtures, software, machinery, equipment, vehicles, etc.
Thailand	Watch production facilities	Machinery, equipment and vehicles, buildings and structures, tools, furniture and fixtures, etc.
China	Watch production facilities, electronic device production facilities	Machinery, equipment, and vehicles, etc.

Fiscal year ended March 31, 2022

Location	Use	Type
Japan	Software, electronic device production facilities, etc.	Software, tools, furniture and fixtures, machinery, equipment, vehicles, etc.
China	Idle assets	Buildings and structures
Switzerland	Watch production facilities, etc.	Machinery, equipment, and vehicles, etc.

The Company and its consolidated subsidiaries group each business unit based on managerial accounting categories, and these groups are regarded as the smallest units that generate cash flows, in principle. Regarding certain consolidated subsidiaries, each subsidiary forms a group in light of their size. Moreover, assets whose association with a specific business is not clear, such as those for head office, are considered shared assets. In the previous consolidated fiscal year, carrying amounts have been reduced to recoverable amounts, mainly for assets with no plan to be used in the future, operating assets with aggravated profitability, and operating assets for a business whose management environment has been significantly deteriorated, and the said reduction was recorded as impairment loss (2,857 million yen) under extraordinary losses. It mainly consisted of machinery, equipment, vehicles, etc. amounting to 1,365 million yen, software amounting to 646 million yen, tools, furniture and fixtures amounting to 519 million yen, and buildings and structures amounting to 280 million yen. In the consolidated fiscal year under review, carrying amounts have been reduced to recoverable amounts, mainly for assets with no plan to be used in the future and operating assets with deteriorated profitability, and the said reduction was recorded as impairment loss (742 million yen) under extraordinary losses. It mainly consisted of buildings and structures amounting to 287 million yen, machinery, equipment, vehicles, etc. amounting to 203 million yen, software amounting to 141 million yen and tools, furniture and fixtures amounting to 76 million yen. The recoverable value is calculated based on net realizable sale price or value in use. The net realizable sale price is stated using disposal value, while value in use is calculated by discounting expected future cash flows at a discount rate of 8%.

*9. Loss on valuation of inventories for Russia is recorded under extraordinary losses.

*10. Reorganization cost comprises the following. (Millions of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Reorganization cost	238	209

Reorganization cost in the previous consolidated fiscal year mainly comprised business structural reform expenses for the watches segment and structural reform expenses arising from the withdrawal from the leisure and services segment (of which provision of allowance for reorganization cost was 80 million yen.) Reorganization cost in the consolidated fiscal year under review mainly comprises business structural reform expenses for the watches segment.

*11. Extra retirement payments comprise the following. (Millions of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Extra retirement payments	4,374	15

Extra retirement payments in the previous consolidated fiscal year mainly comprised those arising from business structural reform for the watches segment. Extra retirement payments in the consolidated fiscal year under review mainly comprise those arising from business structural reform for the watches segment.

*12. Year-end inventories indicate an amount after the carrying amount is lowered due to a decline in profitability, and the following loss on valuation of inventories is included in cost of sales. The amounts below indicate those obtained by offsetting against reversals. (Millions of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
	2,006	2,479

*13. Fixed costs, etc. arising from suspension of operation of plants, stores, etc. due to the impact of the spread of COVID-19 are recorded as a loss arising from COVID-19 under extraordinary losses.

(Notes to Consolidated Statement of Comprehensive Income)

* Reclassification adjustment and tax effect related to other comprehensive income (Millions of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Valuation difference on available-for-sale securities:		
Amount that occurred in the fiscal year under review	2,490	3,175
Reclassification adjustment	1,452	51
Before tax effect adjustment	3,942	3,226
Amount of tax effect	(1,017)	(752)
Valuation difference on available-for-sale securities	2,924	2,474
Foreign currency translation adjustment:		
Amount that occurred in the fiscal year under review	5,533	11,578
Reclassification adjustment	467	-
Before tax effect adjustment	6,000	11,578
Amount of tax effect	-	-
Foreign currency translation adjustment	6,000	11,578
Remeasurements of defined benefit plans, net of tax:		
Amount that occurred in the fiscal year under review	(405)	559
Reclassification adjustment	209	256
Before tax effect adjustment	(195)	816
Amount of tax effect	21	(123)
Remeasurements of defined benefit plans, net of tax	(174)	692
Share of other comprehensive income of entities accounted for using equity method:		
Amount that occurred in the fiscal year under review	66	438
Reclassification adjustment	-	-
Share of other comprehensive income of entities accounted for using equity method	66	438
Total other comprehensive income	8,817	15,182

(Notes to Consolidated Statement of Changes in Equity)

Fiscal year ended March 31, 2021

1. Class and number of issued shares and class and number of treasury shares

	Number of shares at beginning of consolidated fiscal year under review	Increase in number of shares during consolidated fiscal year under review	Decrease in number of shares during consolidated fiscal year under review	Number of shares at end of consolidated fiscal year under review
Issued shares				
Common shares	314,353,809	-	-	314,353,809
Total	314,353,809	-	-	314,353,809
Treasury shares				
Ordinary shares (Notes 1, 2, 3, 4)	1,714,407	2,420	1,948	1,714,879
Total	1,714,407	2,420	1,948	1,714,879

(Notes) 1. The increase of 2,420 shares in the number of treasury stock resulted from purchases of shares of less than one unit.
2. The decrease of 1,948 shares in the number of treasury stock resulted from the issuance and sales of shares of the Company's stock to persons who had served as Directors based on the executive compensation BIP trust.
3. The number of treasury stock at the beginning of the consolidated fiscal year under review includes 376,600 shares held by the executive compensation BIP trust.
4. The number of treasury stock at the end of the consolidated fiscal year under review includes 374,652 shares held by the executive compensation BIP trust.

2. Dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (millions of yen)	Dividends per share (yen)	Record dates	Effective date
Board of Directors meeting on November 12, 2020	Common shares	782	2.50	September 30, 2020	December 4, 2020

(Note) Total dividend resolved at the Board of Directors' meeting on November 12, 2020 included dividend associated with shares of the Company's stock held by the executive compensation BIP trust amounting to 0 million yen.

(2) Of dividends whose record date is in the consolidated fiscal year under review, those whose effective date in the next consolidated fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends (millions of yen)	Dividends per share (yen)	Record dates	Effective date
Ordinary General Meeting of Shareholders on June 25, 2021	Common shares	Retained earnings	782	2.50	March 31, 2021	June 28, 2021

(Note) Total dividends resolved at the ordinary general meeting of shareholders on June 25, 2021 included dividends associated with shares of the Company's stock held by the executive compensation BIP trust amounting to 0 million yen.

Fiscal year ended March 31, 2022

1. Class and number of issued shares and class and number of treasury shares

	Number of shares at beginning of consolidated fiscal year under review	Increase in number of shares during consolidated fiscal year under review	Decrease in number of shares during consolidated fiscal year under review	Number of shares at end of consolidated fiscal year under review
Issued shares				
Common shares	314,353,809	-	-	314,353,809
Total	314,353,809	-	-	314,353,809
Treasury shares				
Ordinary shares (Notes 1, 2, 3, 4)	1,714,879	14,424,435	1,414	16,137,900
Total	1,714,879	14,424,435	1,414	16,137,900

- (Notes)
- The increase of 14,424,435 shares in the number of treasury stock resulted from an increase of 14,421,100 shares through market purchases and an increase of 3,335 shares through purchases of shares less than one unit.
 - The decrease of 1,414 shares in the number of treasury stock resulted from a decrease of 1,290 shares through the issuance and sales of shares of the Company's stock to persons who had served as Directors based on the executive compensation BIP trust as well as a decrease of 124 shares through purchases of shares of less than one unit in response to demand for additional purchases.
 - The number of treasury stock at the beginning of the consolidated fiscal year under review includes 374,652 shares held by the executive compensation BIP trust.
 - The number of treasury stock at the end of the consolidated fiscal year under review includes 373,362 shares held by the executive compensation BIP trust.

2. Dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (millions of yen)	Dividends per share (yen)	Record dates	Effective date
Ordinary General Meeting of Shareholders on June 25, 2021	Common shares	782	2.50	March 31, 2021	June 28, 2021
Board of Directors meeting on November 11, 2021	Common shares	2,817	9.00	September 30, 2021	December 3, 2021

- (Notes)
- Total dividends resolved at the ordinary general meeting of shareholders on June 25, 2021 included dividends associated with shares of the Company held by the executive compensation BIP trust amounting to 0 million yen.
 - Total dividends resolved at the Board of Directors' meeting on November 11, 2021 included dividends associated with shares of the Company held by the executive compensation BIP trust amounting to 3 million yen.

(2) Of dividends whose record date is in the consolidated fiscal year under review, those whose effective date in the next consolidated fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends (millions of yen)	Dividends per share (yen)	Record dates	Effective date
Ordinary General Meeting of Shareholders on June 28, 2022	Common shares	Retained earnings	2,687	9.00	March 31, 2022	June 29, 2022

(Note) Total dividend resolved at the ordinary general meeting of shareholders on June 28, 2022 included dividend associated with shares of the Company held by the executive compensation BIP trust amounting to 3 million yen.

(Notes to Consolidated Statement of Cash Flows)

* Relationship between "Cash and cash equivalents at end of year" and account items listed in the Consolidated Balance Sheets (Millions of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Cash and deposits	101,816	110,901
"Other" under current assets (deposits paid in securities firms)	-	2,844
Time deposits whose deposit period is more than three months	(2,254)	(2,505)
Specified deposits for BIP trust	(0)	(2)
Cash and cash equivalents	99,561	111,237

(Lease Transactions)

(Lessee)

1. Finance lease transactions

Non-ownership-transfer finance lease transactions

- (i) Leased assets
- Property, plant and equipment
They mainly consist of production facilities (machinery, equipment, vehicles, etc.) and office equipment (tools, furniture and fixtures).
- (ii) Method of depreciation/amortization of leased assets
As stated in 2. Depreciation method of important depreciable assets, 4. Matters related to accounting policies under Significant Matters that Serve as the Basis for the Preparation of Consolidated Financial Statements.

2. Operating lease transactions

Noncancelable future operating lease payments (Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Within 1 year	10	9
Over 1 year	17	8
Total	27	17

(Financial Instruments)

1. Matters related to the status of financial instruments

(1) Policy on financial instruments

The Group has the policy of limiting its fund management activities to short-term deposits and the like and to conduct fund procurement primarily through loans from banks and other financial institutions and issuance of bonds. The Group uses derivative transactions only for the purpose of avoiding the risks described below and does not conduct derivative transactions for speculative purposes.

(2) Description of financial instruments and their risks

Notes and accounts receivable - trade, which are operating receivables, are exposed to the credit risk of customers. Foreign currency-denominated trade receivables arising from conducting business in overseas markets are exposed to foreign exchange fluctuation risk. Investment securities consist primarily of stock of business partners and are exposed to market price fluctuation risk. Moreover, the Group provides long-term loans to business partners, etc.

Most of the notes payable - trade and accounts payable - trade, which are operating payables, mature in one year or less. Borrowings and bonds are mainly for procuring funds that are used for working capital, refinancing for long-term loans and strategic investment. The Group is exposed to liquidity risk from its operating payables and loans payable.

Regarding derivative transactions, the Group uses forward foreign exchange contracts for the purpose of hedging currency fluctuation risk associated with foreign currency-denominated trade receivables and payables.

(3) Risk management system related to financial instruments

(i) Credit risk (risk related to business connections' contract non-performance) management
In accordance with the receivable management rules, the Company and its consolidated subsidiaries have systems enabling the management of due dates and balances and periodic assessment of major trading partners' credit standing. In using derivative transactions, the Group uses financial institutions with high credit standing to mitigate credit risk in the event of nonperformance by counterparties.

(ii) Market risk management

Regarding foreign currency-denominated trade receivables arising from conducting business in overseas markets, the Group uses forward foreign exchange contracts for the purpose of hedging certain currency fluctuation risk, in principle, excluding trade receivables denominated in the same currencies.

Regarding investment securities, their market values are periodically reported to the Board of Directors. Moreover, the shareholding status is continually reviewed, taking into consideration relationships with, and the financial conditions, etc. of, business partners.

Derivative transactions are executed and managed by the sections in charge in accounting divisions, etc. of the respective companies, and the results of transactions are reported to executives in charge of accounting or the relevant general managers.

(iii) Management of liquidity risk in financing (risk of failure to pay on due dates)

The Company and the Group prepare and update cash flow plans in a timely manner based on reports from the group companies and manage liquidity risk by such means as maintaining liquidity on hand.

(4) Supplementary explanation regarding the fair value of financial instruments

The fair value of financial instruments is based on market prices or reasonable calculations in the absence of market quotations. Since the calculations of fair values include variable factors, fair values could change when different assumptions are used. In addition, the contract amounts, etc. of derivatives transactions described in (Note to derivatives transactions) are not an indicator of risk associated with derivatives transactions.

2. Matters related to the market prices of financial instruments, etc.

Consolidated balance sheet amounts, market prices and differences between them are as follows:

As of March 31, 2021

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Investment securities (*2)			
Available-for-sale securities	17,747	17,747	-
(2) Long-term loans receivable	251	251	-
Total assets	17,998	17,998	-
(1) Bonds payable (including current portion of bonds payable)	10,000	9,979	(21)
(2) Long-term borrowings (including current portion of long-term borrowings payable)	63,229	63,066	(162)
Total liabilities	73,229	73,045	(183)
Derivative transactions (*3)	(117)	(117)	-

*1. Information regarding "cash and deposit," "notes and accounts receivable - trade," "electronically recorded monetary claims - operating," "notes and accounts payable - trade," "electronically recorded obligations - operating," "electronically recorded obligations - non-operating," and "short-term borrowings" has been omitted because they are cash and their fair values are proximate to their book values due to settlement in short periods.

*2. As the financial instruments below do not have market quotations and as it is considered extremely difficult to assess their fair values, they are not included in (1) Investment securities.

Category	Fiscal year ended March 31, 2021 (millions of yen)
Unlisted shares	10,775

*3. Net claims and obligations resulting from derivative transactions are shown at net amounts. Net obligations are shown in parentheses.

As of March 31, 2022 (Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Investment securities (*2)			
Available-for-sale securities	20,906	20,906	-
(2) Long-term loans receivable	184	191	6
Total assets	21,090	21,097	6
(1) Bonds payable (including current portion of bonds payable)	10,000	9,979	(21)
(2) Long-term borrowings (including current portion of long-term borrowings payable)	55,244	54,893	(351)
Total liabilities	65,244	64,872	(372)
Derivative transactions (*3)	(351)	(351)	-

*1. Information regarding "cash and deposit," "notes and accounts receivable - trade," "electronically recorded monetary claims - operating," "notes and accounts payable - trade," "electronically recorded obligations - operating," "electronically recorded obligations - non-operating," and "short-term borrowings" has been omitted because they are cash and their fair values are proximate to their book values due to settlement in short periods.

*2. Stocks and others without quoted market prices are not included in (1) Investment securities. The said financial instrument's consolidated balance sheet amount is as follows.

Category	Fiscal year ended March 31, 2022 (millions of yen)
Unlisted shares	16,369

*3. Net claims and obligations resulting from derivative transactions are shown at net amounts. Net obligations are shown in parentheses.

(Note 1) Amount of money claims to be redeemed after consolidated closing date

As of March 31, 2021 (Millions of yen)

	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits	101,816	-	-	-
Notes and accounts receivable - trade	43,880	222	-	-
Electronically recorded monetary claims - operating	1,371	-	-	-
Long-term loans receivable	-	251	-	-
Total	147,067	473	-	-

As of March 31, 2022 (Millions of yen)

	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits	110,901	-	-	-
Notes and accounts receivable - trade	49,165	142	-	-
Electronically recorded monetary claims - operating	2,037	-	-	-
Long-term loans receivable	-	184	-	-
Total	162,104	327	-	-

(Note 2) Scheduled redemption amounts of bonds, long-term borrowings, lease obligations and other interest-bearing liabilities with maturity after consolidated accounts settlement date

As of March 31, 2021 (Millions of yen)

	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Short-term borrowings	1,632	-	-	-	-	-
Bonds payable	-	-	10,000	-	-	-
Long-term borrowings	8,016	3,837	1,036	10,036	15,036	25,266
Lease liabilities	293	226	68	61	71	402
Total	9,942	4,064	11,104	10,098	15,108	25,669

As of March 31, 2022 (Millions of yen)

	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Short-term borrowings	911	-	-	-	-	-
Bonds payable	-	10,000	-	-	-	-
Long-term borrowings	3,862	1,043	10,039	15,039	10,039	15,219
Lease liabilities	295	182	70	78	43	414
Total	5,069	11,226	10,110	15,118	10,082	15,634

3. Breakdown of financial instruments by level of market value

The fair values of financial instruments are classified into the following three levels according to the observability and importance of inputs used in the calculation of fair values.

Level 1 fair value:

fair value calculated using market prices, on an active market, of assets or liabilities whose fair value is calculated of the observable inputs related to the calculation of fair value

Level 2 fair value:

fair value calculated using inputs other than the inputs used for Level 1 of the observable inputs related to the calculation of fair value

Level 3 fair value:

fair value calculated using inputs that are not observable related to the calculation of fair value

If more than one input that has a significant effect on the calculation of fair value is used, the fair value is classified to the level of inputs whose priority is lowest in the calculation of fair value.

(1) Financial instruments stated at fair value in the consolidated balance sheet

As of March 31, 2022

Category	Fair value (millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Shares	20,906	-	-	20,906
Derivative transaction				
Currency	-	16	-	16
Total assets	20,906	16	-	20,922
Derivative transaction				
Currency	-	368	-	368
Total liabilities	-	368	-	368

(2) Financial instruments other than those stated at fair value in the consolidated balance sheet

As of March 31, 2022

Category	Fair value (millions of yen)			
	Level 1	Level 2	Level 3	Total
Long-term loans receivable	-	191	-	191
Total assets	-	191	-	191
Bonds payable	-	9,979	-	9,979
Long-term borrowings	-	54,893	-	54,893
Total liabilities	-	64,872	-	64,872

(Note) Explanations about assessment techniques used in the calculation of fair value and inputs related to the calculation of fair value

Investment securities

Listed shares are assessed using fair values Listed shares are traded on an active market and their fair values are categorized into Level 1.

Derivative transaction

Fair values of exchange contracts are calculated by the present discounted value method, using interest rates, foreign exchange rates and other observable inputs and are categorized under Level 2 fair value.

Long-term loans receivable

Fair values of long-term loans receivables are grouped by a certain period of time and calculated by present discounted value method, using future cash flows and individual rates based on the category of credit risks in credit management which consist of appropriate indicators, such as government bond yield, and credit spreads. These loan receivables are categorized under Level 2 fair value.

Bonds payable

Fair value of bonds issued by the Company is calculated by present discounted value method, using the total amount of principal and interest and a rate adjusted by remaining periods of the said bonds and credit risk. These bonds are categorized under Level 2 fair value.

Long-term borrowings

Fair values of long-term borrowings are calculated by the present discounted value method, using the total amount of principal and interest and a rate adjusted by remaining periods of the said borrowings and credit risk. These borrowings are categorized under Level 2 fair value.

(Note to Securities)

1. Available-for-sale securities

As of March 31, 2021

	Type	Consolidated balance sheet amount	Acquisition cost	Difference
Other securities whose book carrying amount on the consolidated balance sheets exceed the acquisition cost	(1) Stocks	17,167	9,121	8,045
	(2) Bonds			
	(i) Government bonds, local government bonds, etc.	-	-	-
	(ii) Bonds payable	-	-	-
Other securities whose book carrying amount on the consolidated balance sheets do not exceed the acquisition cost	(iii) Other	-	-	-
	(3) Other	-	-	-
	Subtotal	17,167	9,121	8,045
	Total	17,167	9,121	8,045
Other securities whose book carrying amount on the consolidated balance sheets do not exceed the acquisition cost	(1) Stocks	580	618	(37)
	(2) Bonds			
	(i) Government bonds, local government bonds, etc.	-	-	-
	(ii) Bonds payable	-	-	-
Total	(iii) Other	-	-	-
	(3) Other	-	-	-
	Subtotal	580	618	(37)
	Total	17,747	9,739	8,008

As of March 31, 2022

	Type	Consolidated balance sheet amount	Acquisition cost	Difference
Other securities whose book carrying amount on the consolidated balance sheets exceed the acquisition cost	(1) Stocks	20,581	9,311	11,270
	(2) Bonds			
	(i) Government bonds, local government bonds, etc.	-	-	-
	(ii) Bonds payable	-	-	-
Other securities whose book carrying amount on the consolidated balance sheets do not exceed the acquisition cost	(iii) Other	-	-	-
	(3) Other	-	-	-
	Subtotal	20,581	9,311	11,270
	Total	20,581	9,311	11,270
Other securities whose book carrying amount on the consolidated balance sheets do not exceed the acquisition cost	(1) Stocks	324	359	(35)
	(2) Bonds			
	(i) Government bonds, local government bonds, etc.	-	-	-
	(ii) Bonds payable	-	-	-
Total	(iii) Other	-	-	-
	(3) Other	-	-	-
	Subtotal	324	359	(35)
	Total	20,906	9,671	11,234

2. Available-for-sale securities that were sold

Fiscal year ended March 31, 2021 (Millions of yen)

Type	Sale price	Total gain on sales	Total loss on sales
(1) Stocks	3,163	1,452	-
(2) Bonds			
(i) Government bonds, local government bonds, etc.	-	-	-
(ii) Bonds payable	-	-	-
(iii) Other	-	-	-
(3) Other	-	-	-
Total	3,163	1,452	-

Fiscal year ended March 31, 2022 (Millions of yen)

Type	Sale price	Total gain on sales	Total loss on sales
(1) Stocks	165	94	-
(2) Bonds			
(i) Government bonds, local government bonds, etc.	-	-	-
(ii) Bonds payable	-	-	-
(iii) Other	-	-	-
(3) Other	-	-	-
Total	165	94	-

3. Investment securities on which impairment losses were posted
Fiscal year ended March 31, 2021

The Company recognized impairment losses on investment securities of 1,220 million yen.

Fiscal year ended March 31, 2022
Not applicable

(Notes to Derivatives Transactions)

1. Derivative transactions to which hedge accounting is not applied. Currencies

As of March 31, 2021 (Millions of yen)

Category	Type	Contract value, etc.	Value of contract for more than one year	Fair value	Valuation gains or losses
Transactions other than market transactions	Forward exchange contracts				
	Long position				
	USD	933	-	(18)	(18)
	EUR	2,496	-	(42)	(42)
	CNY	1,011	-	(42)	(42)
	Short position				
	USD	265	-	(4)	(4)
	EUR	809	-	13	13
	GBP	315	-	(24)	(24)
	Total	5,831	-	(117)	(117)

As of March 31, 2022

(Millions of yen)

Category	Type	Contract value, etc.	Value of contract for more than one year	Fair value	Valuation gains or losses
Transactions other than market transactions	Forward exchange contracts				
	Long position				
	USD	294	-	(3)	(3)
	EUR	3,296	-	(134)	(134)
	CNY	2,868	-	(165)	(165)
	Short position				
	EUR	901	-	(8)	(8)
	GBP	872	-	(40)	(40)
	Total	8,233	-	(351)	(351)

2. Fair values to which hedge accounting is applied

Notes related to interest rates

As of March 31, 2021

Not applicable.

As of March 31, 2022

Not applicable.

(Retirement Benefits)

1. Outline of the retirement benefits system

The Company and its domestic consolidated subsidiaries have adopted lump-sum withdrawal payment systems and retirement benefit systems under defined contribution systems. In addition, some of the overseas consolidated subsidiaries have adopted defined benefit systems or defined contribution systems. In calculating their retirement benefits obligations, some of the consolidated subsidiaries have adopted the simplified method under which an amount required to be paid for voluntary resignations at fiscal year-end is assumed to be equal to retirement benefits obligations. Moreover, the Company has instituted a retirement benefit trust.

2. Defined benefit plans

(1) Reconciliation of defined benefit obligation at beginning and end of period

(Millions of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Defined benefit obligation at beginning of period	25,990	25,465
Service costs	1,402	1,392
Interest costs	124	116
Amount of net actuarial gain/loss	221	(299)
Retirement benefits paid	(3,233)	(1,449)
Exchange adjustments	298	587
The difference arising from the shift from the simplified method to the standard method	676	-
Other	(15)	7
Defined benefit obligation at end of period	25,465	25,820

(Note) Retirement benefit expenses are included in service cost at consolidated subsidiaries using the simplified method.

(2) Reconciliation of balance of plan assets at beginning and end of period

(Millions of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Plan assets at beginning of period	1,952	2,875
Expected return on plan assets	30	67
Amount of net actuarial gain/loss	65	236
Employer contribution	163	125
Retirement benefits paid	(97)	(179)
Exchange adjustments	200	380
The difference arising from the shift from the simplified method to the standard method	573	-
Amount of retirement benefit trust	-	2,000
Others	(12)	31
Plan assets at end of period	2,875	5,538

(3) Reconciliation of retirement benefit obligation and plan assets with net retirement benefit liability and asset reflected on the consolidated balance sheets

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Defined benefit obligation for funded plan	4,272	5,027
Plan assets	(2,875)	(5,538)
	1,397	(511)
Retirement benefit obligation for unfunded plan	21,193	20,792
Net amount of liability and asset on the consolidated balance sheets	22,590	20,281
Retirement benefit liability	22,590	20,281
Net amount of liability and asset on the consolidated balance sheets	22,590	20,281

(4) Breakdown of retirement benefit expenses

(Millions of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Service costs	1,402	1,392
Interest costs	124	116
Expected return on plan assets	(30)	(67)
Expense for actuarial losses	206	250
Amortization of prior service costs	3	5
Retirement benefit expenses related to defined benefit plans	1,706	1,696

(Note) Retirement benefit expenses are included in service cost at consolidated subsidiaries using the simplified method.

(5) Remeasurements of defined benefit plans, net of tax
Breakdown of remeasurements of defined benefit plans, net of taxes, is as shown below.

(Millions of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Prior service costs	15	(5)
Actuarial gains and losses	180	(810)
Total	195	(816)

(6) Remeasurements of defined benefit plans
Breakdown of items posted as remeasurements of defined benefit plans (before deduction of tax effect) is as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Unrecognized prior service costs	220	214
Unrecognized actuarial gains and losses	1,103	293
Total	1,323	507

(7) Pension plan assets

(i) Breakdown of plan assets

The ratios of each of the major categories to total pension assets are as follows:

	As of March 31, 2021	As of March 31, 2022
Stocks	47.5%	19.4%
Bonds	10.7%	13.0%
Cash and deposits	0.5%	38.1%
General account in life insurance	37.4%	27.1%
Others	3.9%	2.4%
Total	100.0%	100.0%

(Note) Of total plan assets, the retirement benefit trust for the fiscal year ended March 31, 2022 accounts for 36%.

(ii) Method for setting expected long-term rate of return

To determine the expected long-term rate of return on pension plan assets, the Company takes into consideration the current and expected pension plan asset mix and expected long-term rates of return on a variety of pension plan assets.

(8) Basis for the calculation of actuarial gains and losses
Major assumptions for the calculation of actuarial gains and losses (weighted average)

	As of March 31, 2021	As of March 31, 2022
Discount rate	0.32 - 3.15%	0.32 - 3.45%
Expected long-term rate of return	0.14 - 4.00%	0.15 - 4.00%

3. Defined contribution plan

The required contribution amounts for the Company and its consolidated subsidiaries were 1,105 million yen and 1,172 million yen for the fiscal years ended March 31, 2021 and 2022, respectively.

(Tax Effect Accounting)

1. Breakdown of key factors contributing to deferred tax assets and deferred tax liabilities

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Deferred tax assets		
Depreciable assets	5,421	4,472
Inventory write-down and unrealized gain	5,289	4,745
Retirement benefit liability	6,051	6,233
Allowance for doubtful accounts	336	408
Provision for bonuses	1,363	1,631
Losses carried forward (Note)	10,906	10,214
Investment securities	2,052	2,086
Provision for loss on business reorganization and liquidation	225	107
Others	4,712	6,398
Deferred tax assets sub-total	36,358	36,299
Valuation allowance related to tax losses carried forward (Note)	(9,765)	(9,398)
Valuation allowance related to deductible temporary differences	(18,662)	(17,414)
Valuation allowance subtotal	(28,427)	(26,813)
Total deferred tax assets	7,930	9,485
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(1,568)	(2,326)
Undistributed profits of overseas affiliated companies	(2,926)	(3,510)
Reserve for special depreciation	(156)	(168)
Others	(424)	(357)
Total deferred tax liabilities	(4,918)	(6,362)
Net deferred tax assets	3,012	3,122

(Note) Tax losses carried forward and the related deferred tax assets allocated to each fiscal year when carryforwards expired.

As of March 31, 2021 (Millions of yen)

	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years	Total
Tax losses carried forward (*)	457	255	132	247	307	9,507	10,906
Valuation allowance	(421)	(255)	(132)	(244)	(307)	(8,403)	(9,765)
Deferred tax assets	35	-	-	2	-	1,103	1,141

(*) The tax losses carried forward is an amount obtained by multiplying the effective statutory tax rate.

As of March 31, 2022 (Millions of yen)

	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years	Total
Tax losses carried forward (*)	419	224	274	273	176	8,846	10,214
Valuation allowance	(276)	(184)	(238)	(273)	(176)	(8,248)	(9,398)
Deferred tax assets	142	40	35	-	-	597	816

(*) The tax losses carried forward is an amount obtained by multiplying the effective statutory tax rate.

2. Breakdown of major items that caused a significant difference between a effective statutory tax rate and a percentage of income taxes after the application of tax effect accounting

	As of March 31, 2021	As of March 31, 2022
Statutory tax rate	Not indicated in the previous consolidated fiscal year because profit before income taxes was negative.	30.6%
(Adjustments)		
Expenses not deductible for tax purposes		0.2%
Dividends income, etc. that is excluded from taxable income		(0.1%)
Change in valuation allowance		(11.9%)
Differences in tax rates between the parent and subsidiaries		(3.3%)
Increase/decrease in amount of tax consequences pertaining to overseas retained earnings		(2.2%)
Others		2.7%
Percentage of effective income tax rate after the application of tax effect accounting		16.0%

(Asset Retirement Obligations)

1. Asset retirement obligations posted in the consolidated balance sheets

(1) Outline of the asset retirement obligations
Asset retirement obligations are recorded, which includes asbestos removal costs arising from demolition of a building held by the Group and restoration costs accompanying real estate leasing contracts for stores.

(2) Method of calculating asset retirement obligations
Regarding asbestos removal costs, useful life of the main unit of the property, plant, and equipment is assumed to be 38 years. As the expected period of use has already passed, the amount is assumed to be equal to the amount of expected expenditure at the end of the consolidated fiscal year under review.
Regarding restoration costs, the amount of asset retirement obligations is calculated based on expected period of use of 5 years from the time of acquisition and a discount rate of 0.0%.

(3) Increase/decrease in the asset retirement obligations (Millions of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Balance at beginning of period	66	75
Increase due to purchase of property, plant and equipment	8	-
Adjustment due to passage of time	-	-
Change due to fulfillment of asset retirement obligations	-	-
Balance at end of period	75	75

2. Of asset retirement obligations, those not recorded in the consolidated balance sheet

In addition to asset retirement obligations recorded in the consolidated balance sheet, the Company has restoration obligations upon withdrawal from the land, etc. in use based on lease contracts. However, the amount of the said asset retirement obligations cannot be estimated with reasonable reliability, because the period of use of the leased assets relating to the said obligations is not clear and because no relocations, etc. are scheduled as of the date of this document. Accordingly, the Company does not recognize such obligation as a liability.

(Revenue Recognition)

1. Information on the breakdown of revenue from contracts with customers

Fiscal year ended March 31, 2022

(Millions of yen)

	Watches	Machine Tools	Devices and Components	Electronics and Other Products	Total
Japan	24,152	17,223	24,954	8,015	74,346
Asia	37,715	27,819	17,405	4,739	87,681
U.S.	48,798	7,726	3,554	2,445	62,525
Europe	18,113	27,441	4,091	3,939	53,585
Others	2,292	800	39	74	3,207
Revenue from contracts with customers	131,072	81,011	50,045	19,215	281,344
Other revenue	-	-	-	72	72
Sales to external customers	131,072	81,011	50,045	19,288	281,417

(Note) Other income comprises real estate rents, etc.

2. Basic information for understanding revenue from contracts with customers

Underlying information for understanding income is as stated in (6) Accounting standards for income and expenses, 4. Matters related to accounting policies.

3. Information about the relationship between the fulfillment of performance obligations based on the contract with the customer and the cash flow generated from the contract, and the amount of revenue expected to be recognized from the contract with the customer existing at the end of the current fiscal year after the next fiscal year and the timing of cash flows

(1) Balance of contract liabilities

(Millions of yen)

	Fiscal year ended March 31, 2022	
	Balance at beginning of period	Balance at end of period
Contract liabilities	1,376	2,071

Contract liabilities are presented under "Other" in current liabilities in the consolidated balance sheet. Contract liabilities are recognized mainly when consideration for transactions accompanying the sale of products is received as advances prior to delivery of products and when consideration for transactions accompanying sales of products is received as advances in a lump sum in relation to membership-based inspection services in the watches segment. Contract liabilities are reversed as revenue is recognized.
The amount of revenue recognized in the fiscal year under review included in the balance of contract liabilities at the beginning of the fiscal year is 912 million yen.

(2) Transaction prices allocated to outstanding performance obligations

The Company and its consolidated subsidiaries apply the practical expedient to notes on the transaction prices allocated to outstanding performance obligations, and information with respect to contracts that have an original expected duration of one year or less is not included in the scope of notes. The sum of transaction value allocated to remaining performance obligations and the period of expected income recognition are as follows.

(Millions of yen)

	Fiscal year ended March 31, 2022
Within 1 year	116
Over 1 year	423
Total	540

(Segment Information)

1. Outline of reportable business segments

The Citizen Group's reportable segments are group components for which separate financial information can be obtained. Each segment is subject to periodic examinations to allow the Board of Directors to decide how to allocate management resources and assess performance.

The Citizen Group has adopted an operating holding company structure and comprehensive strategies are proposed and businesses are pursued by individual operating companies. Consequently, the Citizen Group, starting from a foundation of operating companies, manages its businesses through four reportable segments - Watches, Machine tools, Devices and components, and Electronic products - based on factors like similarity of types and characteristics of products. Each segment and its major products are as shown below.

Segment	Major products
Watches	Watches, Movements
Machine Tools	NC automatic lathes
Devices	Auto parts, Switches, Chip LEDs, micro LCDs, Quartz crystals
Electronics and Other Products	Printers, Health care equipment, etc.

2. Method for calculating sales, profit/loss, assets, liabilities, and other items for reportable segments

The accounting methods applied to the business segments reported are generally the same as those described under Basis of Presenting the Consolidated Financial Statements. Reportable segment income is based on operating profit. Inter-segment earnings and transfers are based on market prices.

3. Net sales, profit or loss, assets, liabilities and other items by reportable segment

Fiscal year ended March 31, 2021

(Millions of yen)

	Watches	Machine Tools	Devices and Components	Electronics and Other Products
Net sales				
Sales to external customers	95,625	46,707	45,919	18,389
Inter-segment sales and transfers	64	161	922	630
Total	95,690	46,869	46,841	19,019
Segment income (losses)	(8,192)	2,935	(493)	394
Segment assets	155,522	63,318	71,486	18,908
Other items				
Depreciation	5,097	1,951	3,270	137
Investment in equity method affiliates	-	3,945	-	-
Increase in property, plant and equipment and intangible assets	3,687	3,197	2,965	231

	Total	Adjustments (Note) 1	Amount posted in the consolidated financial statements (Note) 2
Net sales			
Sales to external customers	206,641	-	206,641
Inter-segment sales and transfers	1,779	(1,779)	-
Total	208,421	(1,779)	206,641
Segment income (losses)	(5,355)	(4,195)	(9,551)
Segment assets	309,235	56,575	365,811
Other items			
Depreciation	10,457	1,100	11,557
Investment in equity method affiliates	3,945	-	3,945
Increase in property, plant and equipment and intangible assets	10,081	825	10,907

(Notes) 1. The following is descriptions of adjustments.

- (1) The 4,195 million yen negative adjustment to segment income (operating profit) includes 139 million yen in inter-segment eliminations and 4,335 million yen in corporate expenses that could not be allocated to a particular segment.
 - (2) The 56,575 million yen positive adjustment to segment assets includes 83,143 million yen in corporate assets that could not be allocated to a particular segment and 26,567 million yen to eliminate inter-segment obligations.
 - (3) Depreciation cost adjustments apply to the entire company.
 - (4) The adjusted increases in property, plant and equipment and intangible assets apply to the entire company.
2. Segment income and losses are adjusted with operating profit on the consolidated financial statements.

Fiscal year ended March 31, 2022 (Millions of yen)

	Watches	Machine Tools	Devices and Components	Electronics and Other Products
Net sales				
Sales to external customers	131,072	81,011	50,045	19,288
Inter-segment sales and transfers	83	60	1,479	669
Total	131,155	81,071	51,525	19,958
Segment income	10,305	12,591	2,864	1,172
Segment assets	169,526	82,904	75,206	20,455
Other items				
Depreciation	4,382	1,917	3,638	261
Investment in equity method affiliates	-	4,732	-	-
Increase in property, plant and equipment and intangible assets	3,371	3,431	3,277	381

	Total	Adjustments (Note) 1	Amount posted in the consolidated financial statements (Note) 2
Net sales			
Sales to external customers	281,417	-	281,417
Inter-segment sales and transfers	2,292	(2,292)	-
Total	283,710	(2,292)	281,417
Segment income	26,934	(4,661)	22,273
Segment assets	348,092	46,870	394,962
Other items			
Depreciation	10,199	992	11,191
Investment in equity method affiliates	4,732	-	4,732
Increase in property, plant and equipment and intangible assets	10,462	307	10,770

(Notes) 1. The following is descriptions of adjustments.

- (1) The 4,661 million yen negative adjustment to segment income (operating profit) includes 121 million yen in inter-segment eliminations and 4,782 million yen in corporate expenses that could not be allocated to a particular segment.
 - (2) The 46,870 million yen positive adjustment to segment assets includes 73,692 million yen in corporate assets that could not be allocated to a particular segment and 26,821 million yen to eliminate inter-segment obligations.
 - (3) Depreciation cost adjustments apply to the entire company.
 - (4) The adjusted increases in property, plant and equipment and intangible assets apply to the entire company.
2. Segment income is adjusted with operating profit on the consolidated financial statements.

(Reference Information)

Fiscal year ended March 31, 2021

1. Information by product/service

This information is omitted because the same information is disclosed in the segment Information section.

2. Information by region

(1) Net sales

(Millions of yen)

Japan	Asia		U.S.		Europe	Others	Total
	Of which, China	Of which, the United States					
70,108	65,659	50,149	34,916	30,252	33,612	2,345	206,641

(Note) Net sales are based on the geographical area of the customers and categorized by country or region.

(2) Property, plant and equipment

(Millions of yen)

Japan	Asia		Others	Total
	Of which, Thailand			
50,458	18,004	7,782	7,485	75,948

3. Information by major customer

There is no information to state because net sales to any particular outside customer do not account for 10% or more of net sales on the consolidated statement of income.

Fiscal year ended March 31, 2022

1. Information by product/service

This information is omitted because the same information is disclosed in the segment Information section.

2. Information by region

(1) Net sales

(Millions of yen)

Japan	Asia		U.S.		Europe	Others	Total
	Of which, China	Of which, the United States					
74,418	87,681	63,966	62,525	51,593	53,585	3,207	281,417

(Note) Net sales are based on the geographical area of the customers and categorized by country or region.

(2) Property, plant and equipment

(Millions of yen)

Japan	Asia		Others	Total
	Of which, Thailand			
47,607	20,032	8,016	7,222	74,862

3. Information by major customer

There is no information to state because net sales to any particular outside customer do not account for 10% or more of net sales on the consolidated statement of income.

Impairment Loss on Non-current Assets by Reportable Segment

Fiscal year ended March 31, 2021

(Millions of yen)

	Watches	Machine Tools	Devices and Components	Electronics and Other Products	Corporate / elimination	Total
Impairment loss	2,751	-	106	-	-	2,857

Fiscal year ended March 31, 2022

(Millions of yen)

	Watches	Machine Tools	Devices and Components	Electronics and Other Products	Corporate / elimination	Total
Impairment loss	365	221	132	-	22	742

Information Related to Amortization of Goodwill and Unamortized Balance by Reportable Segment

Fiscal year ended March 31, 2021

Not applicable.

Fiscal year ended March 31, 2022

Not applicable.

Information on Negative Goodwill Generated for Each Reportable Segment

Fiscal year ended March 31, 2021

Not applicable.

Fiscal year ended March 31, 2022

Not applicable.

Related Party Information

Fiscal year ended March 31, 2021

(1) Transactions between the company submitting consolidated financial statements and related parties
No applicable significant matter.

(2) Transactions between consolidated subsidiaries of the company submitting consolidated financial statements and related parties
No applicable significant matter.

Fiscal year ended March 31, 2022

(1) Transactions between the company submitting consolidated financial statements and related parties
No applicable significant matter.

(2) Transactions between consolidated subsidiaries of the company submitting consolidated financial statements and related parties
No applicable significant matter.

(Per Share Information)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Net assets per share	652.47 yen	768.92 yen
Earnings (loss) per share	(80.52) yen	71.38 yen

- (Notes) 1. Diluted earnings per share for the fiscal year under review is not stated because there is no potential dilution. The diluted earnings per share for the previous fiscal year is not stated because it is net loss per share and there are no residual shares.
2. As described in Changes in Accounting Policies, the Company applied the Revenue Recognition Accounting Standard, etc. (ASBJ Statement No. 29 dated March 31, 2020) and followed the transitional measures prescribed in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. Consequently, net assets per share decreased 3.60 yen and basic earnings per share decreased 0.02 yen during the fiscal year under review.
3. The basis for calculation of earnings (loss) per share is as shown below.

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Earnings (loss) per share		
Profit (loss) attributable to owners of parent (millions of yen)	(25,173)	22,140
Amount not attributed to common shareholders (millions of yen)	-	-
Profit(loss) attributable to owners of parent in relation to common shares (millions of yen)	(25,173)	22,140
Average number of shares of common stock outstanding during the period (thousand shares)	312,639	310,189

4. The basis for calculating net assets per share is as follows:

	As of March 31, 2021	As of March 31, 2022
Net assets (millions of yen)	212,864	238,673
Amount deducted from total net assets (millions of yen)	8,878	9,367
Non-controlling interests	8,878	9,367

(millions of yen)		
Net assets related to common shares at the end of the fiscal year (millions of yen)	203,986	229,305
Number of common shares at end of term used in the calculation of net assets per share (thousand shares)	312,638	298,215

5. The computation of the amount of net assets per share is based on the number of shares calculated by deducting the number of treasury shares at the end of a term and the number of shares owned under the BIP trust at the end of the term from the total number of outstanding shares at the end of that term. The calculation of earnings per share or loss per share is based on the number of shares calculated by deducting the average number of treasury shares during a term and the average number of shares owned under the BIP trust during the said term from the average total number of outstanding shares during the said term. The average number of the Company's shares owned under the BIP trust for the previous consolidated fiscal year was 375,140 and the number of the Company's shares at the end of the fiscal year was 374,652. The average number of the Company's shares owned under the BIP trust for the consolidated fiscal year under review was 373,686 and the number of the Company's shares at the end of the fiscal year was 373,362.

(Significant Subsequent Events)**(Cancellation of Treasury Shares)**

The Company resolved at a meeting of the Board of Directors held on June 21, 2022 to retire treasury stock in accordance with the provisions of Article 178 of the Companies Act. Details are as follows.

1. Type of shares to be cancelled
Common shares of the Company
2. Total number of shares to be cancelled
20,353,809 shares (Percent of the total number of shares outstanding before cancellation: 6.47%)
3. The total number of outstanding shares after cancellation
294,000,000 shares
4. Scheduled date of cancellation
July 29, 2022

Consolidated Supplementary Schedules

Bonds Schedule

Company name	Stock	Date of issuance	Balance at beginning of period (millions of yen)	Balance at end of period (millions of yen)	Interest rate (%)	Collateral	Maturity date
Citizen Watch Co., Ltd.	3rd unsecured bonds	September 25, 2018	10,000	10,000	-	None	September 25, 2023
Total	-	-	10,000	10,000	-	-	-

(Note) The scheduled amount of depreciation for five years from the consolidated account settlement date is as follows.

Millions of yen				
Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years
-	10,000	-	-	-

Borrowings Schedule

Category	Balance at beginning of period (millions of yen)	Balance at end of period (millions of yen)	Average interest rate (%)	Due date
Short-term borrowings	1,632	911	1.3	-
Current portion of long-term borrowings	8,016	3,862	0.4	-
Current portion of lease liabilities	293	295	-	-
Long-term borrowings (excluding current portion of long-term borrowings)	55,212	51,382	0.4	2023 - 2039
Lease liabilities (excluding current portion of lease liabilities)	831	790	-	2023 - 2065
Other interest bearing debts	-	-	-	-
Total	65,986	57,241	-	-

- (Notes) 1. Average number for the period is used to calculate average rate.
2. The average interest rate for lease obligations is not stated because lease obligations before the deduction of interest included in total lease payments is posted in the consolidated balance sheets.
3. Lease obligations are accounted for by including the amounts in Other (current liabilities) and Other (non-current liabilities).
4. Long-term borrowings and lease liabilities (excluding the current portion of them) scheduled to be repaid within five years of the end of the fiscal year are as shown below.

Millions of yen				
Category	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years
Long-term borrowings	1,043	10,039	15,039	10,039
Lease liabilities	182	70	78	43

Asset Retirement Obligations Schedule

The amount of asset retirement obligations at both the beginning and end of fiscal year ended March 31, 2022 are less than 1% of the combined total of liabilities and net assets at the beginning and end of fiscal year ended March 31, 2022, and so have been omitted in accordance with Article 92-2 of the Regulations for Consolidated Financial Statements.

Other

Quarterly information in the fiscal year under review

(Cumulative period)	1st quarter	2nd quarter	3rd quarter	Fiscal year ended March 31, 2022
Net sales (millions of yen)	65,759	135,737	215,608	281,417
Profit (loss) before income taxes (millions of yen)	5,839	12,844	22,985	26,694
Profit (loss) attributable to owners of parent (millions of yen)	4,396	9,870	17,192	22,140
Earnings (loss) per share (yen)	14.06	31.57	55.03	71.38
(Accounting period)	1st quarter	2nd quarter	3rd quarter	4th quarter
Earnings per share (yen)	14.06	17.51	23.47	16.31

INDEPENDENT AUDITOR'S REPORT

June 29, 2022

To the Board of Directors of
Citizen Watch Co., Ltd.

Nihombashi Corporation
Chuo-Ku, Tokyo

Shigehiro Chiba
Designated and Engagement Partner
Certified Public Accountant

Hidekazu Takahashi
Designated and Engagement Partner
Certified Public Accountant

Tatsuya Oritoya
Designated and Engagement Partner
Certified Public Accountant

Opinion

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Law of Japan, we have audited the consolidated financial statements of Citizen Watch Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2022, and the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of Long-Lived Assets

Description of Key Audit Matter	How the Key Audit Matter Was Addressed in the Audit
<p>Property, plant and equipment of JPY 74,862 million and intangible assets of JPY 4,834 million were recorded in the consolidated balance sheet for the year ended March 31, 2022, and they account for 20.2% of the total assets.</p> <p>As disclosed in "Note to the consolidated financial statements," an impairment loss of JPY 742 million was recorded in the consolidated income statement for the year ended March 31, 2022 for assets that are not expected to be used in the future and business assets with deteriorated profitability.</p> <p>The Company examines the need to recognize an impairment loss for the assets or the asset group that has been determined to show signs of impairment. When it is determined that an impairment loss should be recognized, the Company reduces the carrying amount to the recoverable amount and records the decrease as an impairment loss. The recoverable amount is calculated based on the net selling price or the value in use.</p> <p>The value in use is the discounted present value of future cash flows. Estimates of future cash flows are based on business plans approved by management, and significant assumptions, such as future market projections and sales projections including the likelihood of winning orders, are subject to management's subjective judgment. These significant assumptions are also highly influenced by the timing of the end of the pandemic and are subject to uncertainty.</p> <p>Based on the aforementioned factors, we identified the impairment of long-lived assets as a key audit matter.</p>	<p>We performed the following audit procedures in examining the impairment of long-lived assets:</p> <ul style="list-style-type: none"> • Evaluated the design and tested the operating effectiveness of internal controls over the signs, recognition and measurement of impairment loss, • Reviewed the materials prepared by the Company that were used to assess signs of impairment and compared them with the underlying supporting documentation, • Assessed the reasonableness of the period utilized in the future cash flows compared to remaining economic lives of the related assets, • Analyzed the future cash flows by comparing the management's business plans, Assessed the accuracy of management's estimates by comparing prior-year management's business plans to actual financial results, and • For future market projections and sales projections including the likelihood of winning orders that are significant assumptions contained in business plans, including the timing of the end of the pandemic, discussed with management and assessed the reasonableness of the assumptions by reviewing the supporting documentation used therefor and conducting comparative analysis with forecast data published by external organizations.

Valuation of Inventories Held by the Watch Division

Description of Key Audit Matter	How the Key Audit Matter Was Addressed in the Audit
<p>Inventories of JPY 50,979 million were recorded in the consolidated balance sheet for the year ended March 31, 2022, and they account for 12.9% of the total assets. About two-thirds of these inventories are held by the Watch Division, and there are certain risks of a profitability decline due to slow-moving inventories and obsolescence caused by changes in the market environment and the negative impact of COVID-19.</p> <p>In addition, as disclosed in "Note to the consolidated financial statements," the cost method based on the gross average method (for balance sheet values, the method of write-down of book values based on the profitability decline) is adopted as the basis for valuation of inventories.</p> <p>In order to properly reflect the fact of a decline in profitability, a method of regularly writing down book values is adopted for slow-moving inventories or inventories that are expected to be disposed of, that are not included in the operating cycle, by setting a write-down ratio for each item according to a certain duration. This</p>	<p>We performed the following audit procedures to examine the reasonableness of valuation of inventories held by the Watch Division:</p> <ul style="list-style-type: none"> • Evaluated the design and tested the operating effectiveness of internal controls over the Company's inventory valuation process, • Evaluated the reasonableness of the method of identifying slow-moving inventories related to profitability decline and the method of calculating the write-down ratio by examining historical data, and • Obtained the materials on the write-down of book values prepared by the Company, tested the completeness of inventories subject to the write-down, and examined the appropriateness of the write-down of book values by reviewing and recalculating related internal materials.

<p>write-down ratio was estimated based on internal inventory disposal rules and historical data. However, as it is affected by changes in the market environment and thus subject to uncertainty, management's judgment is required.</p> <p>Based on the aforementioned factors, we identified the impairment of long-lived assets as a key audit matter.</p>	
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Other Information

The other information comprises the information included in the Annual Securities Report, but does not include the consolidated financial statements, the financial statements and our auditor's reports thereon. Management is responsible for preparation and disclosure of the other information. The Audit & Supervisory Board Member and the Audit & Supervisory Board are responsible for overseeing the Group's reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Audit & Supervisory Board and its member for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Audit & Supervisory Board Member and the Audit & Supervisory Board are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board Member and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board Member and the Audit & Supervisory Board with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Readers of Independent Auditor's Report

This is merely an English translation of the Independent Auditor's Report as required by the Financial Instruments and Exchange Act of Japan for the conveniences of the reader. The original Auditor's Report shows an audit opinion for the full set of consolidated financial statements based on the Financial Instrumentals and Exchange Act of Japan. Therefore this English audit report does not show our opinion for this English annual report which is only the abbreviation of the above full set of consolidated financial statements.

CITIZEN

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Front Cover Visual Concept

The regularly connected lines of the front cover visual represent the sophisticated precision technological capabilities of the CITIZEN Group, while the expanding circle of double gradations represents a prosperous future leading to the next generation.

